Tariff Problems of the United States

The Annals

Volume CXLI		January, 1929

The American Academy of Political and Social Science
3622–24 Locust Street
Philadelphia
1928

EUROPEAN AGENTS

ENGLAND: P. S. King & Son, Ltd., 2 Great Smith Street, Westminster, London, S. W.
FRANCE: L. Larose, Rue Soufflot, 22, Paris.
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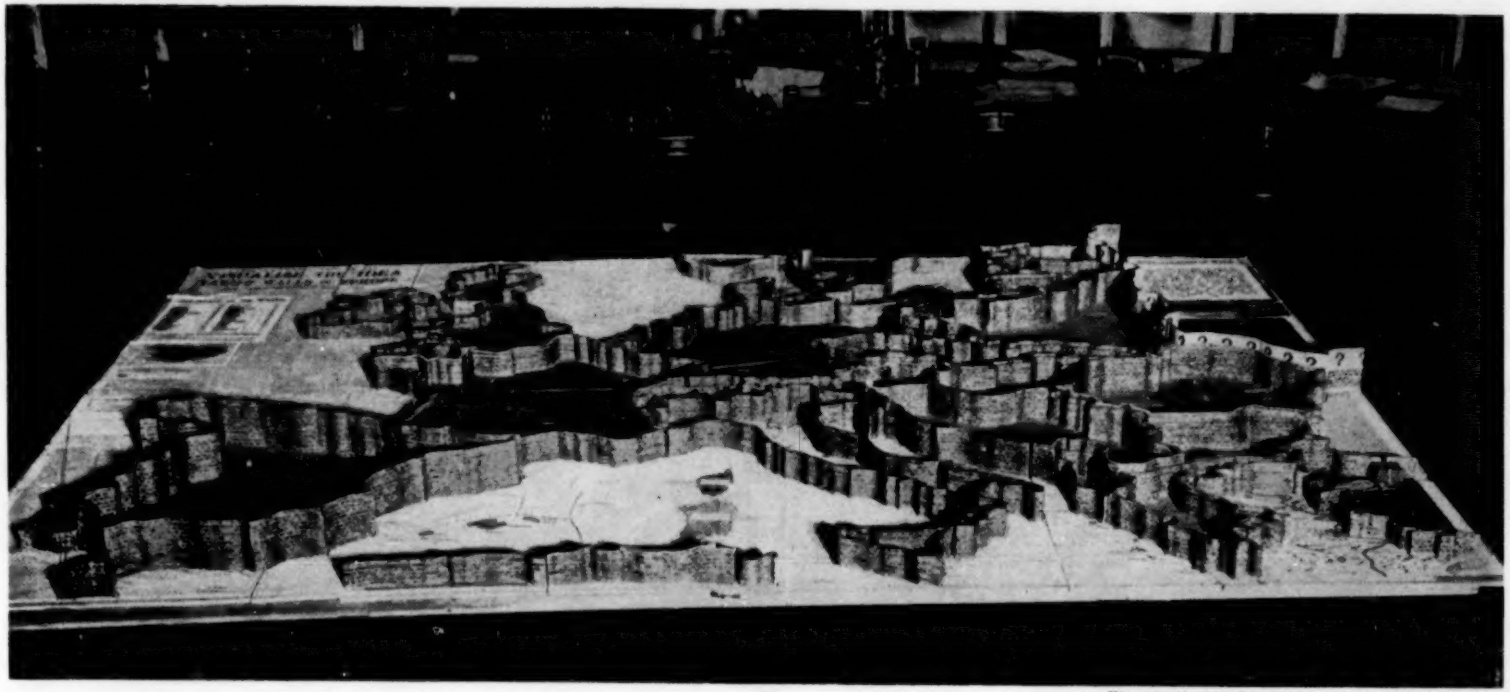
EUROPEAN TARIFF WALLS

Designed by Sir Clive Morrison-Bell, M.P.



Photographed by *The Times* at the Guildhall, London.

General
Walker

This map (which during the last 18 months has been on exhibition at both houses of Parliament in London, the Senate and Chamber of Deputies in Paris, the houses of Parliament in Vienna, Berne and Rio de Janeiro, trade conferences in Berlin, Brussels and Copenhagen, the Bank of England (September, 1926), the Economic Conference, Geneva, the International Chamber of Commerce in Paris, and in numerous other places) may be said to reinforce the conclusions arrived at in the Manifesto of the International Bankers (October, 1926), the Resolutions of the Economic Conference at Geneva, and the Resolutions of the International Conference at Stockholm. All these important bodies agree that the policy of restricting international trade with high tariff barriers is harmful, and is seriously interfering with the Economic recovery of Europe. This model of the tariff walls (which attempts to give a bird's-eye view of the situation in Europe to-day) is designed to emphasize and underline the above warnings.

CONTENTS

PART IV. FOREIGN INVESTMENTS AND THE TARIFF

PART V. INTERNATIONAL COMPLICATIONS OF THE TARIFF

PART VI. CONCLUSION

FOREWORD

The present tariff law of the United States is more than six years old—and tariff laws have a way of not being long-lived. If history repeats itself, it will be revised soon, either upward or downward. The Tariff Act of 1922 was enacted when conditions were in flux. The instability of war was still in the air, Europe had scarcely begun to recover and the Dawes Plan was yet unknown. Few countries were back on a gold basis and paper currencies in Europe were sliding down toward the vanishing point of purchasing power.

The last six years have witnessed monumental changes—economic and political. Germany is again a competing unit, under the Dawes Plan control; England and France, Belgium and Italy are on a gold basis and all are vigorous competitors of the United States. They compete strongly for both our foreign and domestic market. On the other hand, our present protective rates have aroused hostility abroad and curtailed our exports. Foreign nations have resented our efforts to find out costs of production within their borders, and have retaliated in their tariff systems.

The tariff policy of the United States was an outstanding issue in the presidential campaign of 1928. It will without doubt receive consideration in the next Congress. The articles in this volume aim to analyze the problems connected with the protective tariff policy of the United States. No contributor was asked to support protection; no one was asked to condemn it. The invitation was "to state the truth in scientific fashion with a view to affording facts and figures from which readers may draw their own conclusions." The volume as a whole aims neither to support nor condemn—it is propaganda neither pro nor con.

The "American System" has been the outstanding tariff system of the world for over a hundred years. Its proponents attribute to it our marvelous economic development; its opponents affirm that this development has come in spite of rather than because of a high tariff wall. The tariff policy of the United States has always been a bone of contention in politics; it has split the electorate into two great parties. No other issue has been as clean-cut as this one in our political life. That the two great parties just now take nearly the same attitude toward tariff does not remove it from the realm of moot questions. This unanimity of political opinion makes it the more worthy of examination. Both Republican and Democratic candidates for President discussed the tariff extensively in campaign. Mr. Hoover, who has been chosen Chief Executive, has promised early attention to farm relief and his addresses indicate a close connection between farm relief and tariff. The Republican party, now in power and to continue for the next four years, maintains that protection must be increased. Mr. Hoover waged his successful campaign largely on the issue of continued prosperity and increased protection to American industry to conserve this prosperity. The present tariff is evidently "on the carpet" for reëxamination.

But the great foreign trading nations of the world are watching. They are to repay our war loans. To do so they need new markets. We also need new markets abroad for our surplus production. Tariff will doubtless be regarded as the touchstone for the foreign policy of the Hoover administration.

The tariff policy of this country must now be considered in the light of our international prestige and our new position as a creditor nation.

Domestic tariff questions are legion. Although the country has voted to continue Republicanism and high protection, we may still fittingly consider whether or not we may take the tariff out of politics. Do we want the administration of it to be unfettered, safe from the expediencies of political obstructionists? Shall tariff administration be nonpartisan rather than bipartisan, shall it be scientific and semijudicial or only political and perfunctory? In an endeavor to settle domestic tariff problems, to arrive at conclusions on this much mooted question, nearly one hundred prominent industrial executives convened at the Waldorf Astoria Hotel, New York, on November 26th in answer to an invitation sent out by John E. Edgerton, President of the National Association of Manufacturers. This conference was called, as the chairman states, in view of "varying reports of numerous attacks to be made upon the tariff at the forthcoming session of Congress, one demanding an extra session to consider general revision, another for specific revisions upward, another for specific revisions downward, and still other specific demands from specific industries that are losing business today because of the present scheme."

Our tariff policy is the foremost national and international question before the United States today.

HARRY T. COLLINGS.

The Basis of International Trade

By Harry T. Collings

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INTERNATIONAL trade is based on the territorial division of labor. In this respect it differs not at all from domestic trade. International trade arises because a country specializes in the production of certain goods and services and thus produces more than enough to supply the domestic demand. Obviously it must export the surplus to continue the specialization. To receive a return for its exports, a country must ultimately import either goods or services. Imports pay for exports —both of which may consist of services as well as of goods. Services, the so-called "invisible items" of international trade, have occasioned confusion in the minds of many because until recently only the commodities actually exchanged have appeared on the national trade balances. While the bases of foreign and domestic commerce are thus the same, international trade is far more complicated because of new factors which enter into the transactions. False theories, nationalism, differences in language and customs, so complicate exchange of goods between nations as to make impossible a comparison with domestic trade.

In no field of economics have more misleading theories prevailed than in international trade. The doctrine of *caveat emptor* long prevailed in domestic trade; it still persists in foreign commerce. Men for years insisted that what a buyer gained by purchase, the seller must necessarily lose. The argument appealed to reason as a most logical deduction under the law of compensation. It later became evident that values might not be the same for any one good to two different people—in other words, that the marginal utility of a commodity differed for different people according to their need at the particular time, or to their supply relative to this demand. Both seller and buyer may, and usually do, actually gain from a trade because of the differing utility of the purchase to each of them. But national boundaries seem to vitiate this argument of gain to both parties. It seems untrue when one party is a foreigner.

Mercantilism

The persistence of erroneous thinking in foreign trade matters is partially attributable to theories of exchange current centuries ago. Mercantilism, which took root early in economic thinking, dominated this field subsequent to the seventeenth century. This theory had many phases since it related to the entire business activity of a nation. In reference to international trade its tenets may be stated in simplified form somewhat as follows: The infallible index of national prosperity was an increasing national supply of the precious metals. The more gold and silver a country possessed, the richer, the more powerful and consequently the more progressive it was. This overestimation of the economic significance of money was the salient error of mercantilism. It led to the promulgation of certain tenets which have dominated, and still dominate to some extent the thinking of "the man in the street" regarding exports and imports.

In harmony with the view that money is the index of prosperity, mercantilism held that it must be the

essence of sound commercial policy to export commodities of high value, and import in return those of low value. This made a balance of trade that was "favorable" since that excess of exports over imports in value would necessarily have to be paid for in specie which would thus enlarge the national holdings of precious metals. Thus arose the notion still commonly held, that an excess of exports over imports each year constitutes a "favorable balance" of trade and leads to prosperity. That importing more than the nation exported constituted an "unfavorable balance" of trade was the natural conclusion, and the word "unfavorable" soon came to carry with it in this relation the direst predictions as welfare. Any nation which imported more goods than it exported year after year must pay the "unfavorable balance" in specie. It could not, therefore, be other than on the high road to ruin. A natural corollary to this theory was of course an embargo on the export of precious metals.

Mercantilism is not dead yet but the exchange of goods and services between two countries meets other and more real obstacles, such as do not occur in the process of domestic trade. A foreign language acts as a real barrier to sales abroad. This is of special significance to Americans because we are poor linguists. Even though this is due to environment rather than to lack of ability, it none the less handicaps our traders in comparison with the Germans, for instance, or the Scandinavians or the Russians. To describe goods in English and to quote prices in dollars, f.o.b. Chicago on an inquiry for agricultural machinery from a dealer in Bolivia is to be sorely handicapped in competition with a German manufacturer who bids for the sale with a detailed description of his wares in faultless Spanish and who quotes in bolivianos prices for his products delivered to the merchant, including cost, insurance, freight and perhaps tariff duties paid. Differences in language will always constitute a hindrance to international trade, but in this respect we are making some improvement.

As appears from the paragraph above, other differences also complicate the process. Differences in the monetary units of the exporting and importing countries necessitate price conversions into another coinage with its attendant uncertainties. This conversion becomes especially embarrassing since foreign exchange rates fluctuate. The value of a dollar in terms of the British pound, the French franc, the German mark or the Japanese yen varies from day to day. These variations may cause a wide divergence between the value in dollars of 10,000 Brazilian milreis today and the same amount six months hence, when a time draft in milreis may be paid. This field of foreign exchange is abstruse and technical and yet every foreign trader must work in it.

Other differences than those already mentioned are even more disturbing because they seem so unnecessary and illogical from our point of view. Religion and social custom bind trade, and foreigners must subscribe to, or at least be considerate of the religious and social practices of customers to make maximum sales. In a country where the elephant is sacred and the snake an object of contempt, these facts must be taken into consideration in advertising. In a foreign country where automobiles must be decorated with pig skin and painted in gaudy colors, a successful domestic sales policy may fall flat. That religion should prescribe the cut and texture of daily garments may seem strange, but it is a controlling principle in the sales policy of certain countries. But with all these varia-

tions in language, money, customs and religion, foreign trade is basically similar to domestic trade except in so far as tariff walls are erected to control it.

Fundamental Principles

International trade rests upon two fundamental principles—first, that imports pay for exports; and second, that the law of comparative cost (or advantage) largely determines the quantity and kind of goods and services exchanged.

Imports pay for exports because in the long run at least, no other payment is either feasible, or desirable. The only other possible payment for exports would be money—gold, since no other type of money is standard in value and therefore universally acceptable. But the total sum of available money in the world is only $10,000,000,000 and nearly one-half of this has now been for years in the United States. It becomes evident on a little thought that the exchange of goods would be seriously encumbered should the world's total export and import transactions be subject to cash payment. While the available supply of gold could be used over and over, the present sum of monetary gold would be conspicuously inadequate. But since more than ninety per cent of present day international trade is financed by credit instruments—bills of exchange—which are quashed against each other instead of being presented for payment in cash, the present supply of money proves adequate. It is required to constitute "reserves" rather than a "medium of exchange." In financing, exporting and importing, gold is much more a "standard of value" than a means of final payment. Gold measures value; it does not pay for it.

Even though the gold supply were adequate for all international payments, another problem would at once arise, which would be especially perplexing if we persist in requiring our country to maintain a "favorable balance of trade." Were a country actually to export more than it imported (including invisible as well as visible items) and were the difference to be paid year after year in gold, certain reactions would take place. The country which thus increased its gold holdings would by the same token increase its prices. Prices (whether in a direct and exact ratio or not is unimportant here) always tend to rise as the amount of money increases unless commercial transactions increase proportionately. But as prices continued to rise with the unbroken "favorable balance," this country would rapidly lose its attraction for foreign buyers. Exports would decrease. Vice versa it would be a correspondingly better market as prices went up for foreigners to dispose of their own surplus. Hence even though gold were the only, or the principal medium of payment for exports and imports, one-sided payments could not long endure. Gold movements, as has been already pointed out, are largely self-corrective. From the national standpoint at least, goods or services purchased abroad must in the long run pay for sales abroad.

Law of Comparative Advantage

The second basic principle of international trade is known as the "Law of Comparative Advantage" (or Law of Comparative Cost), which states that countries tend to export those goods in which they have the greatest comparative advantage. In other words, this law says that countries tend to export those commodities or services in which their labor is most efficient.

In discussion of differences in the cost of production of goods as between two countries, three possible cases may be considered—(1) absolute differences,

(2) equal differences, and (3) comparative differences. Costs are here measured not so much in money as in time—days of labor needed to produce the given commodity. Labor and effort rather than money measure the real cost of production. The effectiveness of labor in copper mining in the United States is twice as great as in Germany, hence our cost of production of copper (in terms of days of labor) is one-half that of Germany. That country, on the other hand can produce certain grades of linen at one-half the cost in the United States. Each has an "absolute advantage" over the other as to production costs of one of these commodities. A condition might exist, however, in which equal rather than absolute differences in cost would exist. If the United States could produce 100 pounds of copper for a certain labor cost and the same amount of time and effort in Germany produced only 60 pounds, while in Germany a certain effort produced 12 yards of linen to 20 from a similar American effort, we should then have equal differences in cost. The United States would be the more fortunate country but the degree of its "fortunateness" would be the same in the production of copper and linen as compared to Germany.

But it is "comparative advantage" in cost of production that interests us chiefly in considering the principles of international trade. Suppose that a certain unit of time and labor in our country produces two bushels of wheat or 200 pounds of iron, while in Germany the same expenditure of time and energy produces either one bushel of wheat or 200 pounds of iron. We then have a case of "comparative cost or advantage." The United States is the more fortunate country but its "fortunateness" is in wheat only. It has a comparative advantage over Germany where the cost of producing wheat and iron is concerned. This "comparative advantage" can be shown mathematically if we substitute algebraic symbols for the quantities produced and then carry out an exchange of the products in the world's markets.

Assume that x equals a bushel of wheat, then a day's labor in the United States produces $2x$ and in Germany only x. With the same effort expended either country can produce 200 pounds of iron. If y equals 100 pounds of iron, a day's labor in the iron field is represented by $2y$. Now both wheat and iron ore have a world price. They exchange at some ratio in the world's markets. If this ratio is $2x=3y$ then this simple equation states that two bushels of wheat will bring as much in the world's markets as 300 pounds of iron.

Under these circumstances if the United States specializes in wheat, it may produce a surplus—an excess of production over domestic needs. This surplus is exportable. Every day's labor in the wheat field produces $2x$ wheat. If this is traded for iron in the world's market (the actual process will consist of selling the wheat at the prevailing market price and buying iron with the proceeds) at the ratio indicated above ($2x=3y$), then in return for the export of a day's labor in the wheat field ($2x$), we shall receive $3y$ iron. Transportation charges on the wheat and iron will not affect this ratio materially. So disregarding this item, the country exporting wheat will receive $3y$ iron for its export of $2x$ wheat. But in this country a day's labor in the iron mine produces only $2y$ iron. Therefore there is a comparative advantage of 50 per cent if this area specializes in wheat and obtains its iron by importation from abroad. While this example exaggerates the comparative advantage, it illustrates the prin-

ciple. Likewise in the second country of our illustration where a day's labor produces x in the wheat field or $2y$ in the mining industry, it will be profitable to specialize in iron. The advantage of this second area will not be as great but is still apparent. By specializing in iron production we will assume that a surplus, above domestic needs, becomes available for export. If a day's labor in the iron field is exported ($2y$) and with the proceeds, imports of wheat are paid for at the ratio indicated above ($2x=3y$), then it becomes clear that by specializing in iron and trading the surplus, the country obtains more wheat for a day's labor than by attempts at domestic production of the grain. If a day's production of iron ($2y$) is exported at the prevailing price ($2x=3y$) the resultant importation of wheat will then be two-thirds of $2x$ or $1\frac{1}{3}x$. But by domestic production of wheat this country obtains only x wheat per day of labor. It, therefore, stands to gain $33\frac{1}{3}$ per cent by the transaction, if we disregard transportation and other incidental charges.

GAIN FROM INTERNATIONAL TRADE

The preceding line of argument makes clear wherein lies the gain from international trade. An advantage arises from specializing in a certain field and trading the surplus product for what we need but cannot produce to equally good advantage. But it usually happens that a country produces more than two commodities or services. Actual cases, therefore, show that an area may secure a gain of three per cent by specializing in the manufacture of textiles and trading (buying and selling in the world's markets are the actual processes) for raw cotton. But it may appear that the same country has a comparative advantage of four per cent by specializing in optical glass and trading its surplus for raw cotton. Another exchange might show an advantage of six per cent, and still another of eight per cent. This means that while a country could profitably export textiles and buy raw cotton, it may be better to buy the textiles abroad and confine specialization to aniline dyes, perfumes, toys or tea because the advantage is *comparatively* greater in one of those fields. In consequence of this, it may be profitable and hence defensible for the United States to import cotton cloth from England at seven cents per yard although we could ourselves make it at six and three-quarters cents. We thus lose one-quarter of a cent per yard, but by saving our working energy for wheat production we are producing in a field where our "comparative" advantage is greater. By so doing we not only make up the loss on the textile importation but also make additional gains. The law of comparative advantage is the basis of international trade. Nations gain most by international trade when each specializes in the field or fields where its labor is most efficient.

PRACTICAL BASIS OF FOREIGN TRADE

But our interest in foreign trade is connected more with its practical than with its theoretical basis. We want to know how foreign trade increases our national wealth rather than how its mechanism functions. We shall now turn to this phase of the subject.

Foreign trade is and has for some time been necessary to the welfare and healthy growth of the United States. Until recently, however, it has been the subject of comparatively little thought or interest. With exports consisting largely of food-stuffs and raw materials urgently needed by foreign nations, we knew nothing of competition abroad. Receiving as a part of the return for these exports the so-

called invisible items of foreign trade—such as services of a merchant marine, of banks or insurance companies, services to our tourists abroad, satisfaction of interest payments on foreign loans or immigrant remittances—our foreign trade has never brought home to us as a people that "imports pay for exports."

Foreign trade in the popular mind and even among business men came to mean exporting American products for which we received cash, often before the commodities left our shores. The importation of foreign goods was regarded as an unmitigated evil, to be confined within the strictest limits since it "took our money abroad" and "robbed American laborers of their jobs." Any gain on the part of foreigners in selling goods to us must of necessity be so much loss to the domestic purchaser. So ran the popular argument.

The international aspect of American business, however, has recently taken on a new significance. We have come to see our need of foreign trade as an integral part of our fullest economic development, and the discussion of the last ten years has clarified and corrected many misleading popular notions. This much is now clear—we have changed from a nation exporting chiefly foodstuffs and raw materials, to a nation importing some foodstuffs and much raw material. Our exports are now largely manufactured goods and these must win for themselves a market. Then, too, our domestic market of over one hundred twenty-five million people no longer absorbs the output of our productive machinery. In the past, development of domestic business took all our energy and capital, and foreigners took all our available exports; at present our internal economic development has ceased to demand all our attention or money and we can manufacture more than we need at home. This leads inevitably to one conclusion—foreign trade must be taken into account as a factor in our normal business life.

IMPORTANCE OF FOREIGN COMMERCE

Just how important our foreign commerce is as compared to domestic trade cannot be easily or accurately stated. It is hard to measure quantitatively the exact value to a country of its exchange of goods or services with other countries. Many of the advantages of international commerce are not subject to statistical measurement. If the sum of our early exports and imports (in values) constitute our foreign business, then we can easily obtain this figure. But how shall we compare this with our domestic business? The two figures are not subject to comparison. Values for our imports are based (except for coal-tar products) on prices abroad which are not comparable with prices in the United States until proper adjustment has been made for differences in price levels. Our next question is to find out just what constitutes domestic business. Is it measured by the total volume of money transactions, including strictly financial transactions as well as payments for commodities and services? Or should commodities only be included in domestic trade? If so, does each sale and resale continue to swell the total? Are our exports counted as part of our domestic business, and imports also when finally disposed of to the ultimate consumer? The raising of these questions shows how complex is the computation. A careful estimate (*New York Times Annalist*, January 17, 1926) maintains that our foreign trade for 1915 was less than one per cent of our total trade, while another estimate (B. M. Anderson, Jr., *The Value of Money*, pages 267–278) concludes that

our foreign trade in that same year was 16.4 per cent as large as the domestic trade. Different bases were evidently used.

It is scarcely conceivable that we shall ever seek abroad the chief markets for our products. For decades to come our domestic market will probably demand three-quarters or more of all we can produce and will absorb these products at prices satisfactory to the producer. Foreign trade never will have, for us, the dominating position it holds in the life of the Netherlands, Belgium, Switzerland, Denmark, the United Kingdom or in any of the Latin American countries. As the following table shows, the United States stood twenty-second in a list ranked according to the per capita value of foreign trade in 1913 which was a reasonably normal trade year:

ANNUAL FOREIGN TRADE PER CAPITA
(Values in dollars for the year 1913)

	Total
1. Netherlands	$452.98
2. Belgium	221.47
3. New Zealand	191.26
4. Switzerland	168.26
5. Australia	149.39
6. Denmark	139.82
7. Canada	137.38
8. United Kingdom	125.20
9. Cuba	120.27
10. Norway	101.58
11. Argentina	100.39
12. Uruguay	94.47
13. Union South Africa	84.44
14. Sweden	79.50
15. Chile	76.48
16. France	74.98
17. Germany	74.02
18. Dutch West Indies	63.37
19. Finland	54.16
20. Panama	49.79
21. Costa Rica	46.24
22. United States	42.60

Since such figures are obtained by totaling export and import values and dividing the total by the number of inhabitants in the country, it is evident that sparsely settled countries which must buy their manufactured products abroad and pay for them with exported foodstuffs or raw materials, will stand high in the list. Likewise, industrially advanced nations with comparatively small areas must rely upon imports of foodstuffs and raw materials and export finished commodities to maintain a high scale of living and continue their economic development. In either case the per capital value of the foreign trade will be comparatively high.

INTERNATIONAL BALANCE OF TRADE

But the overwhelming importance of the home market by no means implies that the foreign market is negligible. Our trade with other nations at its peak in 1920 reached nearly thirteen and a half billions of dollars, and in 1927 amounted to approximately nine billion fifty million dollars as shown by the following table:

THE FOREIGN COMMERCE OF THE UNITED STATES
(In millions of dollars)

Year *	Exports	Imports	Total
1800	$71	$91	$162
1810	67	85	152
1820	70	74	144
1830	72	63	135
1840	124	94	218
1850	144	173	317
1860	334	354	688
1870	393	436	829
1880	836	668	1,504
1890	858	789	1,647
1900	1,394	850	2,244
1910	1,745	1,557	3,302
1920	8,109	5,238	13,347
1921	4,485	2,509	6,994
1922	3,832	3,113	6,945
1923	4,168	3,792	7,960
1924	4,591	3,610	8,201
1925	4,910	4,227	9,137
1926	4,809	4,431	9,240
1927	4,865	4,185	9,050

* (Department of Commerce.) Fiscal year up to and including 1920; from 1921 on, calendar years.

If to this statistical table of the export and import of merchandise (visible items of international trade) we add the invisible items, some significant transactions will appear. In 1927 some 400,000 tourists spent $770,000,000 abroad, chiefly in Europe. The number of Americans traveling in foreign countries had risen to 200,000 before the World War; that number has now doubled and total expenditures abroad have quadrupled because prices have risen at least one hundred per cent. Other significant items appear in our international balance of trade for 1927. European nations paid the United States Government interest amounting to $209,000,000 last year, on the war loans to the Allies, while $738,000,000 of interest was paid to private citizens here for our $13,000,000,000 loaned abroad to industrial and commercial enterprises. Immigrants sent $206,000,000 out of this country in 1927; our motion picture industry received $75,000,000 from foreigners for rights and royalties, while our payments to foreigners who carried two-thirds of all our exports and imports as well as most of our ocean travelers amounted to many millions more. We are annually investing abroad nearly a $1,000,000,000 additional capital which is part of our foreign trade. In 1927 our international turnover approximated $18,200,000,000 although commodities exported and imported amounted to less than half this total.

But another basis for foreign trade now exists. We must have it to continue our economic progress. The United States produces more iron, copper, petroleum, coal, and cotton—basic raw materials needed in modern manufacturing—than any other nation, and more than it needs for home consumption. We have an aptitude for the use of machinery, a genius for its invention, and an indefatigable energy of organization which sweeps away all barriers to accomplishment. In the production of standardized manufactured goods, in the adoption of large-scale methods—in all the factors which make for increased products, we have no peers. How can we utilize these advantages to the full when our domestic market does not, and of necessity cannot, absorb at reasonable prices the total products of our potential energy? Only by consistent cultivation of the foreign market. Supposing this absorbs only 10 per cent of our total product, can we then estimate the importance of our foreign trade at that figure? It is a curious piece of business psychology which does. It is absurd to suppose that the remaining 90 per cent would continue as before, assuming the disappearance of the other 10 per cent or any considerable part of it.

The percentage of foreign trade means nothing until we can inquire into the far-reaching effects which the loss of this percentage might have upon the fundamental courses of domestic business. It is usually admitted that the difference between normal volume of business and the volume of business at the bottom of a depression is only about 20 per cent and the average reduction from normal business during the entire period of a depression may be less than 15 per cent. Variations of from 5 to 15 per cent in operating ratios in some lines of business may cover the range from reasonable profits to ruinous losses. The percentage of our products absorbed by foreign trade may be the difference between success and failure, because a reduction in foreign demand may drastically depress prices; because unforeseen price changes may play such havoc with profits; and because the cumulative buying capacity upon which American industry prospers depends in its initiation, and for its maintenance, so much upon the

profitable sale of products whose prices are determined in international markets; our interest in foreign trade and in foreign economic conditions exceeds by far the relative importance suggested by the 10 or 15 per cent which our foreign trade bears to our total trade.

Conclusion

The conclusion of the whole matter may thus be stated. We buy goods abroad because thereby we get more for our expenditure of time and effort than if we made these same goods here. Thus we increase our national wealth through foreign trade. How does foreign commerce increase our national wealth? To answer this from the practices of all too many exporters would be to say that it serves as a means of disposing of our surplus products "whenever there is a surplus." Unfortunately for us it has served just such a purpose all too often. This is simply to regard sales abroad as a temporary refuge to be sought only in times of domestic storm. To look upon the foreign market as an outlet only when in an emergency the domestic market does not suffice, is to fail to understand the fundamental law of trade. Foreign trade is not and never can be established on a firm basis for any nation until it becomes a permanent policy, and an exchange of goods in which both the buyer and seller profit. Bargain counter sales jeopardize domestic business; they ruin international business. International commerce is a long-term proposition. To sell abroad only for the nonce is to invite dissatisfaction and criticism.

The benefit to be derived from foreign trade is found more in imports than in exports. That this is true for the people as a whole is patent; that it is also true for the individual trader in the long run is not so evident. The individual producer is interested in selling for profit—the largest quantity of goods at the highest prices. Sales in foreign lands further his aim. But the people as a whole are interested in neither exporting nor importing per se, but only in getting the largest quantity of want-satisfying goods of the best quality, for the least amount of effort. Reduction of the units of labor required to obtain consumption goods is the essence of economic progress. Would he succeed, the individual exporter must act in accordance with this principle. His exports he can sell only (1) for cash, (2) on credit, or (3) for other goods (imports). But for all the exporters of a country to receive cash from a foreign country over a long period of time is manifestly impossible. The importing countries would soon be drained of the money (gold), and prices would fall, while the exporting country with the continuous influx of gold would experience a rise of prices. These phenomena would of themselves reverse the foreign trading relations—making the country of the former exporter a place to sell goods to advantage, and that of the former importer an excellent mart in which to buy.

If, then, the exporter cannot continue to demand cash (gold), what shall we say of credit? Simply this, that credit is not payment at all—it is merely postponing of payment. Credit no more pays for goods than does a public loan eliminate taxes. It only puts off the evil day. The only way, then, in which exporters can receive pay for their wares over any long period of time is through imports. International trade is essentially barter. The increase, then, in our national wealth must come through getting more or better goods by exchange with other countries than if we attempted to make all goods for ourselves. We concentrate on certain commodities in

which we have a comparative advantage, and exporting our surplus we thereby get in return a larger amount or a better quality of another goods for a given expenditure of energy than if we had endeavored to supply our needs in both articles. Thus do we profit by foreign trade and increase our national wealth. This says nothing more than that by specializing on certain products and sending abroad the quantities not needed at home, a nation gets more per unit of labor than by attempting to satisfy all its own needs. Surely this is the principle of modern business. South Dakota grows wheat and trades the grain not needed at home for the shoes of Massachusetts; Florida grows oranges and exchanges the surplus for Pennsylvania textiles. To what end is this exchange? Solely that each community may receive more for its labor than if each community were self-sufficient.

The Development of the American System

By Harold U. Faulkner
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LIKE many features of our later political and economic system the origins of the American tariff are to be found in the earliest colonial period.

Colonial Period

The first charters took it for granted that tariffs were to be established on both sides of the Atlantic and made provisions accordingly. The century and a half of colonial America provides, in fact, one of the most interesting phases of our tariff history, for it was then that Great Britain in line with mercantilistic theory, attempted by tariffs at home and in America to regulate the economic life of the colonies. As long as these regulations did not interfere in an important way with normal economic development or were not enforced, they were taken for granted and little opposition was aroused. When important elements in the trading population realized, however, that Great Britain after 1763 intended to enforce the old system and impose new tariffs detrimental to American interests, strenuous opposition immediately arose, an opposition which culminated in the American Revolution. The unwise system of English tariffs was a primary cause leading to the Revolution.

The Revolution as far as the Continental Congress was concerned was financed without the aid of a tariff. The make-shift government had not the power to use it to obtain revenue, and under the existing reaction against the tariff there was little likelihood that such power would be soon granted. With the coming of independence, however, the thirteen independent states were confronted by the problem of finance, and as tariffs afforded an indirect method of obtaining revenue in a way that was likely to arouse the least opposition, they were widely used. In fact it was not long before the states began to use tariffs as a weapon against one another as well as against foreign nations. The desire to curtail internal tariff wars, and at the same time give the federal government strength to retaliate against the tariff discriminations of foreign governments, was one of the important arguments in favor of a new constitution.

Tariff Primarily for Revenue

The new constitution, it will be recalled, forbade export duties and vested in the central government the sole power of levying taxes on imports. Hamilton, whose influence was predominant in the organization of the financial policy of the infant government, was a strong believer in protection and his famous *Report on Manufactures*, submitted in 1791, gave classic expression to this point of view. He was able, however, to arouse but little interest in a protective tariff., The first tariff act of July 4, 1789, although it recognized the protective feature, was designed primarily for revenue and the policy as laid down in this first act was continued until 1816. There was relatively little manufacturing in America; its economic life was primarily based upon agriculture and the extractive industries, and this normal condition was accentuated by the European situation. The year of the establishment of the new federal government in America saw the outbreak

of the French Revolution which was soon to involve Europe in a quarter century of warfare.

These wars which plunged Europe in misery and destruction brought to America unprecedented prosperity. Europe provided a ready market for American exports and the prices of agricultural and other raw materials increased enormously. The new government was able to finance itself without increased taxation and accordingly became popular. Manufactured goods from Europe, financed by the unprecedented flow of exports, were imported in large quantities. This highly advantageous situation came to an end in friction with England and France leading in 1807 to the Embargo act, in 1809 to the Non-Intercourse act and in 1812 to the war with Great Britain. It was during the years 1807–15 that the United States, cut off in part from European goods, commenced in an important way to manufacture for herself. The War of 1812 was brought on not by the trading interests of the Northeast, but rather by an enthusiastic and patriotic group of frontier statesmen, the so-called "War Hawks," led by Clay and Calhoun, who felt at the end of the war some sense of responsibility toward the infant industries which had developed during the struggle. The tariff of 1816, which is often said to mark the beginning of the protective system in this country, was, in reality, primarily a revenue tariff, but by raising the duties on cottons and woolens it gave some protection to the war industries.

First Protective Period

The period from 1816 to 1828 marks the first important protective movement in this country. The textile manufacturers of New England, the iron workers of Pennsylvania and the industrialists generally wanted protection against the flood of European goods which poured in after the war, and their agitation was now reinforced by large elements from the agricultural population. Owing to poor harvests in Europe the exportation of agricultural products had held up until the panic of 1819, but European recovery, corn laws and other factors thereafter, so cut down agricultural exportation that the farmers felt the necessity of new markets. Many hoped to find these new markets in an urban, manufacturing population built up by a protective tariff. The leader of this group was Henry Clay of Kentucky who advocated what he termed the "American System," a policy which included not only the development of home markets by means of a protective tariff but the enthusiastic development of roads and canals ("internal improvements") to facilitate the exchange of manufactured for agricultural goods in the domestic market.

A tariff bill calling for a general increase in rates failed of passage in 1820 by one vote so that the first important legislative fruit of the "American System" was the tariff of 1824. This bill not only took care of the cotton, woolen, iron and other manufacturers but it granted protection to such producers of raw materials as hemp and wool, thus enlisting some agricultural support. The regional divisions on the tariff of 1824 are interesting. The South, which in the post-war enthusiasm had supported the bill of 1816 now turned against protection, a position which she has more or less consistently held to the present day. New England was divided, the manufacturers favoring and the shipping interests opposing, while the middle and western states of those days—New York, New Jersey, Pennsylvania, Ohio and Kentucky—were strongly in favor.

The high watermark of the early

protective movement was reached in the tariff of 1828, a bill preceded by a manufacturer's convention at Harrisburg and much agitation on the part of the woolen manufacturers. Although a considerable amount of sentiment for a higher tariff had been aroused by this time, it is difficult to determine either its extent or trend, for the tariff of 1828 was so preëminently a political measure that the whole question was clouded. The American tariff system has been many times the football of politics, but never quite to the extent that it was in 1828. The Jackson men planned a tariff which would satisfy the protective demands of the western and middle states, but because of the high duties on raw materials would be obnoxious to New England. It was expected that after defeating all amendments the bill would be too much for New England to swallow, and that section, in combination with the South, would defeat it, thus throwing upon New England and the Adams men the obloquy of its failure and allowing the Jackson men to pose as the friends of domestic industry. The bill, as John Randolph sarcastically remarked "referred to manufactures of no sort or kind, except the manufacture of a President of the United States."

To the surprise of all, New England on the final vote supported the measure, and the "Tariff of Abominations" became law. Opposition to it was strong and in 1832 most of the abominations were removed and the rates practically restored to the level of 1824. The South, however, now decidedly anti-protectionist, was thoroughly aroused, and South Carolina passed a nullification ordinance declaring the tariff law of 1828 and the amendment thereto of 1832 to be null and void. Tariff duties had been a chief cause of the War of Independence and now they threatened to dissolve the young Republic in revolution, but Jackson's uncompromising stand for national unity and the willingness of Congress to compromise delayed the revolt for another thirty years.

Downward Tendency

The compromise tariff of 1833 called for a reduction of all duties exceeding 20 per cent in the tariff of 1832, the reduction to be gradual until 1842 when a uniform rate of 20 per cent was to be established. Like the bill of 1828, it was essentially a political measure; its purpose was to mollify the South rather than to establish scientific rates. In this it was successful, but the tariff of 1833 is significant also in that it inaugurated a period of low tariffs. Although the protective feature was never lost sight of, the trend, with the exception of a higher tariff from 1842 to 1846, was downward. There was little interest in the tariff in 1842 or demand for change on the part of the general public and Calhoun was not far wrong when he asserted that the act of that year was not passed at the demand of the manufacturers but rather because the politicians wanted an issue. The act of 1846, (Walker tariff) which lasted until 1857, brought radical reductions and at the same time inaugurated on a wide scale *ad valorem* duties and introduced the warehousing system of storing goods until the duty was paid, an innovation permanently retained. An overflowing treasury was the cause for the next tariff of 1857 which further lowered the duties, and, for a few years, says Taussig, "there is as near an approach to free trade as the country has had since 1816."

Civil War Tariffs

This policy was reversed with the Morrill tariff of 1861 which inaugurated

the present high tariff system. The Morrill act of 1861 was not passed as a war revenue measure, but it contributed in bringing on the conflict. Historians are far from unanimous as to the relative importance which southern fear and hatred of a high tariff had to do with the rebellion, but there is a growing tendency to lay more emphasis upon it. This much seems evident. There was no widespread demand by manufacturers for a high tariff in 1860; Morrill himself admitted in later years that the tariff "was not asked for, and but coldly welcomed by manufacturers, who always and justly fear instability." With the exception of the short period of the panic of 1857, the period from 1846 to 1861 had been one of great economic prosperity. The Republicans, searching for issues to bind together the discordant elements in the North, evidently believed that the old Whig protectionists could be allied with the new Republicans, if protectionism was offered them. The Morrill tariff with its high rates was introduced in the House of Representatives in the session of 1859–60 and passed but did not come before the Senate until the session of 1860–61.

In the meantime the Republican convention met at Chicago, where high protection industrialists and representatives of the frontier farmers demanding free homesteads jostled for recognition with the more idealistic free-soilers of '56 and '58. The Republicans went on record not only for free soil, but for free homesteads and a protective tariff, and in the manufacturing states of the Middle Atlantic protection was the chief issue stressed. Curtin, Republican candidate for Governor of Pennsylvania, did not even mention slavery in his ratification speech but dwelt on "the vast heavings of the heart of Pennsylvania whose sons are pining for protection to their labor and dearest interests."[1] Between the time of the election and the inauguration of Lincoln the Senate acted favorably on the Morrill bill and the South had the most definite possible proof that the control of the government had passed from the land owning aristocracy of the South to the rising plutocracy of the North. The Morrill tariff had hardly become law when Fort Sumter was fired upon, and for a third time a high tariff played a leading part in an American revolution.

The Civil War having commenced, the Morrill tariff was not only retained, but no session of Congress went by without raising the rates. Money to carry on the war had to be obtained; war industries were demanding protection, and manufacturers were clamoring for higher rates to offset the vast system of internal excise taxes which were being levied. The most important of the war tariffs were those of 1862 and 1864. Earlier in 1862 an internal revenue bill had been passed and to compensate manufacturers added protection was granted them. Under the guidance of strong protectionists and under the spur of war needs wholesale advances were again made in 1864. This latter act, says Taussig,

> was in many ways crude and ill-considered; it established protective duties more extreme than had been ventured on in any previous tariff act in our country's history,

yet,

> five days in all were given by the two houses to this act, which was in its effect one of the most important financial measures ever passed in the United States.[2]

Among other things it brought the average level of duties up to 47 per cent. This legislation of 1864, hastily drawn and crude as it was with no protectionist request denied, remained

[1] Quoted and discussed by Charles and Mary Beard, *Rise of American Civilization*, II, 35.

[2] Taussig, F. W., *Tariff History of the United States*, 6th ed., 167–8.

for decades the basis of the American tariff system.

Movement for Tariff Reform

These war tariffs, unscientific and exorbitant as they were, naturally laid themselves wide open to the criticism of tariff reformers in the post-bellum years. Davis A. Wells, Special Commissioner of the Revenue, and Secretary of the Treasury McCulloch, united in 1867 in urging reduction, but their bill failed. The act of 1870 aimed to reduce taxation, but the reductions were almost entirely on such purely revenue articles as tea, coffee, wines, sugar, etc. The growth of the Liberal Republican movement in 1872 which advocated a lower tariff was strong enough to bring a 10 per cent reduction just before the election of that year, but the panic of 1873, and the loss of revenue resulting therefrom, afforded an excuse to restore the earlier levels. Throughout these reconstruction years the high tariff lobby had defeated practically every effort at reform; prosperity, when it existed, was attributed to the tariff, and the burdens of taxation were lifted by reducing the internal excises.

For almost a decade no further important attempt at tariff reduction was attempted until a treasury surplus of a hundred millions in 1881 and 1882 led President Arthur to suggest a general overhauling. A strongly protective commission was appointed which advocated reductions averaging 25 per cent, but the resulting bill of 1883 lowered the general level only 5 per cent.

From the close of the Civil War until the eighties neither political party in their official pronouncements had been clear on the tariff. The tariff reform clubs and the northern tariff reformers were as likely to be Republican as Democratic, and Republicans, like President Arthur, had taken the initiative in urging action. In 1887, however, President Cleveland made the matter a party issue when he devoted his entire message to the tariff. Pointing out the dangers of a continuing treasury surplus and declaring the existing tariff to be a "vicious, inequitable, and illogical source of unnecessary taxation," he demanded a general reduction. Following the president's lead, a bill was prepared under the direction of John G. Carlisle and passed the Democratic House. The Senate, on the other hand, passed a bill of its own, known as the Mills bill, but as neither could pass the other House, the matter waited upon the decision of the electorate in the campaign of 1888. For the first time in our history the tariff was the chief campaign issue and received an adequate discussion. Although Cleveland received a majority of the popular votes, Harrison won the electoral college, and in 1890, the Republicans, after revising the House rules to prevent dilatory tactics on the part of their opponents, passed the McKinley bill, which raised the average level to 49.5 per cent. High duties were placed on the finer grades of woolens, cottons, linens and clothing and on iron, steel, glass, tin plate and agricultural products, while the surplus was taken care of by removing the duties on sugar but at the same time granting to the Louisiana producers a bounty of two cents a pound.

This tariff was so quickly reflected in the higher cost of living that the Democrats were given possession of the House in 1890, and of the Senate and chief executive's office in 1892. For the first time since the Civil War that party had control of both the legislative and executive branches and as the campaign of 1892 had been fought over the tariff, some change was inevitable.

cleavage

When it actually came to making the tariff the process revealed the handiwork of so many high tariff Democrats that Cleveland denounced the bill as a piece of party perfidy and dishonor and allowed it to become a law without his signature. The act reduced the average level to 39.9 per cent and any lack of revenue was expected to be taken care of by an income tax. The latter, however, was declared unconstitutional in 1895 and in the meantime the panic of 1893 had so depleted the income from the tariff that the treasury reported for several years a deficit.

New High Tariff Era

The campaign of 1896 was fought over the question of currency and there appeared to be little interest in the tariff in 1897 or demand for a change. McKinley, nevertheless, had scarcely entered the White House before he called a special session of Congress to revise the rates. The Wilson-Gorman bill was speedily wiped from the statute books and the Dingley act substituted, which not only restored the McKinley rates, but raised the average level to 57 per cent, with prohibitive duties on raw and manufactured wool, and a restoration of hides to the dutiable list.

Of the general tariff acts of the United States the Dingley bill was the longest to remain in force. The deluge of prosperity which swept the country as the nation swung onto the upgrade of a new business cycle, in the years following the Spanish-American War, gave it prestige with large groups, but this popularity was eventually undermined by the rising cost of living and by the reviving anti-trust sentiment. The Republican platform of 1908 promised "revision" and the electorate interpreted the word as meaning downward. The disappointment, as a consequence, which ensued after the Payne-Aldrich bill was passed in 1909, was a potent element in the Republican defeat of 1910 and the election of Wilson in 1912. President Taft in his Winona speech characterized the Payne-Aldrich act as the best tariff bill the Republican party had ever passed, but this highly roseate view was not widely entertained.

The Underwood Tariff and the World War

Since the days of Cleveland the Democrats had bitterly denounced the high Republican protectionism, and the victory of Wilson made a new act inevitable. A "competitive tariff" had been emphasized, and the Underwood-Simmons bill of 1913 put iron, steel, raw wool, sugar (the latter in 1916) and certain agricultural products on the free list and made big reductions on cotton and woolen goods, but raised the rates on chemicals and other products. The reduction in revenue was taken care of by an income tax, now constitutional. Whatever may have been the official stand of the Democratic party, their two attempts at tariff making resulted in acts still highly protective. So strongly intrenched, in fact, was the protective system by 1913, that it was evident neither party dared desert it. Governor Smith's stand on the tariff in the recent campaign was a straightforward recognition of a position toward which his party had for some years been tending.

What the permanent effect of the Underwood tariff would have been, if any, upon American industry, it is impossible to determine because of the abnormal conditions imposed by the World War. When the Republican party returned to power in 1920 an emergency tariff was rushed through in 1921 to prevent post-war dumping and meet the demands of the farmers. A year later a more detailed act, the

Fordney-McCumber 1921 tariff, was passed which reimposed the duties on iron and steel, gave wide protection to agriculture, raised the duties on textiles, took care of such "war babies" as chemicals, and, in general, surpassed the rates of 1909. To make sure that no loophole existed, the President was given power to raise or lower rates by an amount not exceeding 50 per cent, upon recommendation of the Tariff Commission.

Even a rapid review of American tariff history makes possible certain observations which, in all probability, would be agreed to by all except the most rabid partisans. In general the tariff acts have been hastily and unscientifically drawn. With the exception of one or two instances it has been almost impossible to obtain a clear cut decision from the electorate because the tariff has been so entangled with other political issues. It has furthermore been impossible easily to determine at just what point, if at all, an industry ceased being "infant" and no longer needed protection. It is obvious likewise that in making tariffs the lobbies desiring protection were always stronger and more vocal than those opposed. Furthermore, the tariff commissions, however "scientific" they were supposed to be, somehow had a protectionist complexion under Republican administration and the opposite under Democratic. At the same time, it is apparent that the nation, as the years have passed, has become more favorable to a high tariff.

The Effect of the Tariff on the Import Trade

By George B. Roorbach
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Any definite or quantitative estimate of the effect of tariff duties on the import trade of the United States is exceedingly difficult to make. The factors that influence the amount and the character of merchandise that is imported at any period are so diverse and complicated that to isolate any one of them, such as the rate of duty, and to give it a definite measure of its importance, can hardly be done, except, perhaps, in a few specific instances. Doubtless, the rate of duty is an important factor in determining the amount and the character of imports; in particular commodities it may be, and often is, the dominant influence. Its restrictive influence on total trade, however, is probably less than is generally supposed.

Import Trade Variations

The variations in our import trade are usually influenced by forces far stronger than variations in the rates of import duty. Imports ebb and flow in response to general conditions of business depression or prosperity within the country without primary reference to higher or lower tariffs. Changes in the international financial position of the country—a swing from a debtor to a creditor status, for example—may result in important developments in the import trade. The Great War obscured almost entirely the effects of tariff legislation. Changes in style and tastes may be far more determining causes of increases or decreases in imports than changes in rates of duty.

Another difficulty in measuring the influence of the tariff on our imports arises from the fact that since the Civil War the United States has been continuously under a protective tariff system. The periods of lessened protection under the Wilson Act of 1894 and the Underwood Act of 1913 were complicated by the depression of 1893–1895 and by the outbreak of the Great War in 1914 and its aftermath. To what extent, and in what ways, therefore, protective tariffs have influenced the total volume of our trade is uncertain. We have had in recent years no long period of low tariffs with which to compare our trade under conditions of high tariffs.

The purpose of a protective tariff is either to lessen or to shut out imports of the merchandise protected. If it does not do this, it fails in its primary intention. And for particular articles of merchandise there are examples a-plenty that tariffs have accomplished to a greater or less degree what they were expected to accomplish in this respect. Since the sum total of our import trade is made up of particular commodities it follows that increases or decreases in tariffs do have an effect on our total dutiable imports. It does not follow, however, that a decrease in dutiable imports measures the decrease in total imports, for apparently one of the results of import tariffs is to give an added impetus to the import of non-dutiable goods, and also to increases in invisible imports, thus offsetting in whole or in part decreases in dutiable goods brought in.

Furthermore, a decrease in imports into a tariff-protected country, for whose exports there is a continued

demand, sets in motion the familiar economic forces that tend to raise prices in the importing country, thus checking its exports, and to lower prices in the export country, hence favoring further imports by the duty-imposing country. The first declines in imports are thus offset by later gains; but the total imports would remain less than if no protective duties had been imposed.[1]

IMPORT TRADE OF THE UNITED STATES

Let us first examine the import trade of the United States over a period of years to see if there is any discernible influence in its development corresponding to changes in our tariff rates. For this purpose, the period since the Civil War is taken. Table I gives the statistical data for the period.

During the period, the total value of imports into the United States has shown a generally steady increase except for the two periods of wide economic depression in 1873–1879 and 1893–1895. Taking the per capita imports as perhaps being a more accurate measure of the actual annual fluctuations in our foreign trade, since it eliminates the influence of a growing population, we find that after the Civil War, even under the high protective duties of the Tariff Act of 1864, per capita imports showed a continued upward trend, from an average of $10.73 in 1866–1870 to $13.79 in 1872 and $15.91 in 1873. The actual increase in total imports was, of course, at a much more rapid rate. The removal of duties on tea and coffee in 1872 apparently had little effect in increasing the importation of these two commodities. A general reduction of 10 per cent in all tariff rates in the same year may have had some effect in the sharp upward swing in imports in 1873, but probably only a minor influence. High imports in that year marks the culmination of the period of expansion before the crash of 1873, of high prices and a large inflow of foreign capital.

During the economic depression following 1873, per capita imports declined—to $13.26 in 1874, to $9.00 in 1879. This fall is clearly a reflection of the period of general depression, for no changes took place in tariff legislation, other than the repeal of the 10 per cent reduction in 1875. With the revival of business following the resumption of specie payments in 1879, imports again increased; from $9.00 per capita in 1879 to $12.51 in 1880, to $13.65 in 1882. There were no changes in the tariff during this period. Following the Tariff Act of 1883, which maintained the protective principle unimpaired, per capita imports at first fell off and then partially recovered. But following the McKinley Act in 1890, in which the general rates of duty were advanced even beyond the protective rates of the Acts of 1864 and 1883, imports per capita advanced the first year (1891) to $13.24, the highest since 1882. Imports continued to expand under the McKinley Act until 1894, when, in response to the depression of 1893, they declined over $200,000,000 below the 1893 level. The enactment of the Democratic Wilson Tariff Act of 1894, which reduced somewhat the duties of the McKinley Act, did not result in increasing imports. On the contrary, in no year during the life of the Wilson Act did imports reach either in total or in per capita value the imports under the McKinley Act.

From 1898 to 1913, the protective principle was more completely established than ever before in the Dingley Act of 1897 and the Payne Act of 1909. Beginning with 1900, the import trade

[1] For the elaboration of this aspect of foreign trade theory, see F. W. Taussig, *International Trade*, especially Chapter 13.

TABLE I—IMPORTS INTO THE UNITED STATES,* 1866–1926

Year	Total Imports (Millions of Dollars)	Imports Per Capita	Per Cent Free	Average *Ad Valorem* Rate of Duties on Dutiable Imports
1866–1870	426	10.73	5.2	47.50
1871–1875	563	13.55	19.97	40.60
1876–1880	482	10.18	32.05	43.77
1881	643	12.68	31.51	43.27
1882	717	13.74	29.39	42.71
1883	701	13.12	29.50	42.61
1884	668	12.20	31.61	41.67
1885	579	10.34	33.22	46.05
1886	624	10.89	33.69	45.78
1887	680	11.60	33.74	47.57
1888	707	11.81	33.78	46.15
1889	735	12.02	34.05	45.49
1890	766	12.27	33.71	44.63
1891	845	13.27	44.83	46.50
1892	804	12.37	55.78	48.98
1893	833	12.56	51.93	49.75
1894	630	9.32	59.11	50.29
1895	731	10.61	51.55	42.19
1896	760	10.82	48.56	40.18
1897	789	11.03	48.39	42.41
1898	587	8.06	49.65	49.20
1899	685	9.24	43.72	52.38
1900	831	11.01	44.16	49.46
1901	808	10.34	41.98	49.83
1902	900	11.28	44.01	49.97
1903	1,008	12.38	43.38	49.20
1904	982	11.82	46.26	48.92
1905	1,087	12.84	47.56	45.33
1906	1,213	14.06	45.22	44.22
1907	1,415	16.09	45.35	42.60
1908	1,183	13.21	44.43	42.98
1909	1,282	14.05	46.77	43.19
1910	1,547	16.66	49.21	41.56
1911	1,528	16.19	50.85	41.27
1912	1,641	17.13	53.73	40.16
1913	1,767	18.17	55.87	40.08
1914	1,906	19.32	60.45	37.63
1915	1,648	16.46	62.66	33.46
1916	2,354	23.06	68.47	28.80
1917	2,919	28.14	73.34	26.28
1918	2,952	28.06	75.51	23.65
1919	3,828	35.90	70.84	21.27
1920	5,102	47.22	61.08	16.40
1921	2,557	23.22	61.18	29.46
1922	3,074	27.55	61.43	38.07
1923	3,732	32.91	58.02	36.17
1924	3,575	30.97	59.25	36.53
1925	4,176	35.66	64.87	37.61
1926	4,408	37.07	65.97	39.34

* Taken from the Statistical Abstract of the United States 1926, pages 446–447.

began to expand rapidly and consistently, except for the temporary dip during the 1908–1909 financial depression. The value of imports in 1913 was more than twice the value of 1900 imports, and stood at $17.94 per capita, the highest in our history. The upward tendency of imports in 1914, under the first year of the more moderate duties of the Underwood Act, continued the trend already apparent during the preceding decade. Due to inflations in values and the abnormal conditions of war time, the import growth from 1915 to 1920 is of little value for this study.

The Tariff Act of 1922, which again reëstablished the highly protective rates of the pre-war Republican tariffs, went into effect late in 1922. The first full year of imports under that Act showed large increases in imports over the preceding year and have since continued upward. Per capita value increased from $23.22 in 1921, to $27.55 in 1922, to $32.91 in 1923 and in 1926 stood at $37.07.

It is clear that the expansions and contractions of our import trade as a whole have not corresponded to changes in our Tariff Acts. The general tendency shows a marked increase in imports since the Civil War with temporary declines during periods of business depression. Conspicuously such declines occurred during the depressions of 1873–1879, 1893–1895 and 1908–1909. Marked has been the increase in total and in per capita imports after 1900 under the Dingley and Payne Acts and especially under the Tariff Act of 1922.

INFLUENCES OF TARIFF ON IMPORT TRADE

Even if not discernible in the total volume of our imports, can the influence of the tariff be seen in changes in the general commodity make-up of our import trade? It would be expected that the most rapid increases in imports would be in those goods imported free of a protective duty. From column 4 of Table I it will be noted that this is so for the whole period under consideration. The percentages of goods admitted free has shown a large increase—from 5.2 per cent in the five years following the Civil War to from 59 per cent to 66 per cent since 1920.[2] Free imports have increased much more rapidly than dutiable.

In column 5 of the same table is given the average *ad valorem* rate of duties actually collected on dutiable goods imported. It will be noted that the average rates from 1884 to 1890 were higher than from 1872 to 1883, and there was also corresponding higher percentage of free imports. Likewise the higher rates under the McKinley Act, about .50 per cent as compared with 45 per cent to 47 per cent under the previous tariff, corresponds to higher percentages of free imports; while from 1895 to 1897, under lower average rates, the percentage of free imports declined as compared with the McKinley Tariff period. It would be a hasty generalization, however, to maintain that a close relation exists between these two factors. For while this relation seems to be maintained in general, the average rates of duty collected on dutiable imports have declined since the early 1900's and at the same time the percentage of free imports has increased.

The continued and growing percentage of free imports during the past twenty-five years undoubtedly represents less a tariff influence restraining dutiable imports, than the positive influence of a rapid expansion of our imports of crude materials in response

[2] The marked increase from 1866–1870 to 1871–1875 was due largely to the putting of coffee and tea on the free list in 1872.

to industrial expansion in the United States. For most of the leading raw materials are free, and crude imports have been the most rapidly expanding group of imports. Only if one accepts the extreme protectionist claim that our industrialization has been the result of the protective system, could it be logically maintained that tariffs indirectly have increased imports of raw materials.

If we consider the dutiable imports only, we find it difficult to establish a direct effect of tariff changes on imports. In Table II are given the average *ad valorem* rates of duty on the various schedules of the tariff classification for four representative years; 1901 during the Dingley Tariff, 1912 during the Payne Act, 1921 under the Underwood Law,[3] and 1926 under the Fordney-McCumber Act.

[3] The rates of duty in 1921 were influenced by the rates of the Emergency Tariff of that year on agricultural products.

Under the influence of the Fordney Act, it will be noticed, the average rate of duty in 1926 was greater than in 1921 in every schedule except J (hemp, flax, and jute) and H (spirits). Recorded imports under H were insignificant, and may be ignored here. Imports, however, have increased markedly in nearly every schedule except cotton manufactures, and only very small declines in sugar and silks. Remembering that deflations in price have occurred since 1921, the increases in volume of these dutiable imports are even greater than the value figures indicate. With an increase in duty rate from 34 per cent to 47 per cent, earthen- and chinaware imports have more than doubled in value since 1921, and have continued year by year to increase since 1923. Metal schedule imports increased over 80 per cent. Sugar imports in 1922 and 1923, under higher rates of duty than any since the Act of 1883, broke all previous records.

TABLE II—DUTIES BY SCHEDULES *

Schedules	Average *Ad Valorem* Rates				Value Imports (Million Dollars)	
	1901	1912	1921	1926	1921	1926
A. Chemicals	28%	26%	22%	29%	64	98
B. Earthenware, etc.	51	51	34	47	28	61
C. Metals	38	34	22	33	62	147
D. Wood	19	12	16	24	10	18
E. Sugar	72	48	31	71	233	206
F. Tobacco	110	82	54	54	66	71
G. Agricultural products	34	29	17	24	156	270
H. Spirits	68	84	47	39	3	1
I. Cotton manufacturers	50	45	26	34	58	40
J. Flax, hemp, jute	45	45	27	18	36	145
K. Wool	70	56	35	50	52	148
L. Silks	53	52	41	55	45	44
M. Pulp and paper	24	21	19	24	9	21
N. Sundries	24	24	33	38	165	229
All dutiable imports	49%	40%	30%	37.6%	993	1,500
Free imports	....	....	....	....	1,564	2,908

* Taken from the Statistical Abstract of the United States, 1926, page 551.

Even Schedule N, containing many articles with rates of duty running from 70 per cent to over 90 per cent duty, has continued to increase in value of imports under the Fordney Act. Silk imports, with average rates of duty from 53 per cent to 55 per cent, have continued to increase since 1923, and were in 1926 essentially on a level in value with 1921; in volume there has been an actual increase. An examination of the chief dutiable imports bearing the highest rate increases under the Fordney Act show many more cases of increases in imports than decreases since 1922.

IMPORTS FROM GERMANY

A comparison of the imports of cotton gloves and of toys, including dolls, under the Tariff Act of 1922 may be used to illustrate the difficulty of measuring the influence of rates of duty upon importations and for showing the influence of other factors. Both of these items are imported principally from Germany. Under the Underwood Tariff, both carried a duty of 35 per cent *ad valorem*. The rate on toys and dolls was increased to 70 per cent by the Fordney-McCumber Act, and on gloves to at first 50 per cent to 75 per cent and after 1923 to 75 per cent.[4] Since 1922 the imports of toys and dolls have declined—from $7,554,000 in 1922 to $4,598,000 in 1927 (see Table III); while cotton gloves have steadily increased, even in the face of increasing duties, from $3,629,000 in 1922 to $6,513,000 in 1926. If the increased duty was the cause of the decreasing imports of toys and dolls, why did the same, or even greater, increases in rates of duties not have the same effect on cotton gloves?

There seem to be three chief factors accounting for the decline in the imports of dolls and toys from Germany, the chief market. First, a domestic industry in toy manufacturing had been built up in the United States during the war while Germany was shut out. The industry had been able to so adjust itself to machine and large scale production that it had become firmly established by the end of the war.

TABLE III—IMPORTS OF TOYS AND COTTON GLOVES

Year	Toys and Dolls (Dollars)	Cotton Gloves	
		Dozen Pairs	Dollars
1914	9,084,019	1,511,733	2,161,078
1920	10,737,694	386,414	1,345,637
1921	7,107,408	1,114,080	3,271,300
1922	7,553,959	1,327,804	3,629,479
1923	8,362,437	960,583	3,160,099
1924	5,247,949	1,364,980	4,246,798
1925	4,057,754	1,659,131	5,488,064
1926	4,396,440	2,111,429	6,513,666
1927	4,597,670		

[4] The duty on cotton gloves set by the Tariff Act of 1922 was a mixed rate. From 1922 to 1923, the average *ad valorem* equivalent ranged from 50 per cent to 75 per cent. In 1923, 43.6 per cent of imports paid the maximum of 75 per cent. Following 1923, under a Treasury Decision, gloves imported came in under the tariff rate on embroideries, and practically all imports since that year have paid the 75 per cent rate.

This adjustment had been due in part to a change in type of toys. At present, the United States is the largest manufacturer of toys in the world and exports a growing amount to other countries. Secondly, there has been in the United States a marked change in the type of toys demanded by the American public. The old type of cheap German "plaything" had become out of vogue and in its place has come the high grade mechanical toys, wheel goods and educational toys. Well made, original in design, they made a strong appeal to the American boy and girl. Likewise, the old type of doll, stiff-jointed, over-dressed, expressionless, has given place to the ultra-modern, character dolls, strong and unbreakable. Style and quality appeal have made the American product popular. Thirdly, the higher prices of imported toys has undoubtedly had a strong influence. Higher production costs in Germany plus a doubling of the rates of duty have lessened the demand for the German product. The toys that continue to come in are principally the very cheap goods which the American manufacturer in general cannot, or does not care to, produce under the conditions of industry in this country.

In the case of cotton gloves, practically all the imports are of the warp-knit or suèded type that make to the American buyer a triple appeal of style, quality and economy. The fabric of which they are made closely resembles suède or chamois leather.[5] The technical processes and skill in its making have been most highly developed in Germany, and even though the manufacture of high-grade suède gloves had developed in the United States during the war, German makers rapidly regained the American market at the close of hostilities. In addition to the advantage that Germany appears to have in the manufacture of this type of cotton cloth, the German product has an established reputation for quality, color, finish and style. Department store buyers estimate that 95 per cent of the warp-knit gloves imported into the United States are style goods; and 80 per cent novelty styles—bright colored, embroidered, two-tone contrasting gloves with novelty cuffs, and so on. Under these conditions importations continue to expand in the face of the very high duty imposed.

Style, taste and reputation combine with the factors of skill and cost to give different directions to imports of these two products under tariff conditions essentially identical.

Triangular Trades

The incidence of American import duties rests most heavily upon manufactured products. In 1926, of our imports of finished goods 65.2 per cent were dutiable, as compared with only 17.2 per cent of crude materials. Since the chief source of manufactured products is industrial Europe, tariffs bear most heavily on imports from that region. In 1926, of our very large total imports from Europe, 62.2 per cent were dutiable, as compared with only 15.6 per cent dutiable from South America, 16.3 per cent from Asia, 16.7 per cent from Africa, and 26 per cent from Canada. This burden upon the export trade from European countries to the United States, in connection with the decided demand for American exports in Europe, has doubtless been an important factor—though not the only one—in accounting for the large excess of American exports to Europe over imports from Europe. For the five years before the war, United States exports to Europe averaged $514,000,000

[5] See United States Tariff Commission, Tariff Information Survey on Cotton Knit Gloves, 1923.

in excess of imports from Europe. Since the war, the export balance has further increased not only absolutely, but relatively. In 1926, this excess of exports to Europe was $1,074,000,000, a greater sum than our total exports to all of South America and Asia combined.

This situation apparently has contributed to the development of indirect or triangular trades. Because of high import duties in the United States it has been easier for European countries to pay in part for their excess imports from the United States by settling United States trade deficits resulting from an excess of imports into the United States from Latin American and Far Eastern countries.[6] How far this triangular trade has changed the character as well as the geographic distribution of American import trade it is, of course, impossible to estimate. Doubtless it has been a factor. If imports of manufactures into the United States from Europe have been curtailed by our high duties, exports from the United States to third regions have also been hindered as a result of the triangular settlements; and the final effect of the tariff on American industry may not have been to alter its general aspects to a greater extent than if the settlement of trade balances had been determined by a freer or less hampered trade. Some of the gains which may have been made by shutting out imports of manufactured goods from Europe may have been lost in greater competition and lessened exports from the United States to Latin America and the East.

Invisible Imports

Not only do heavy duties on manufactured imports from Europe tend to encourage triangular trades, they also are apparently a factor favoring the development of "invisible imports" as a substitute for merchandise imports. If European demands for imports from the United States continue to expand in response to Europe's urgent needs for American products, and if payments for these imports by merchandise exports are restricted by high tariffs in America, other means of payments must be developed if imports from the United States are continued. Following the Civil War, the expansion of American imports into Europe was in part made possible by the increasing use of European shipping services by Americans. The growing amount of shipping services purchased was also accompanied by a decline in the American Merchant Marine. Other services—banking, insurance, merchandising—grew to be more and more important as a means of payment to the United States, thus, in part at least, offsetting the restrictions on merchandise imports imposed by the American tariff. These "invisible" exports by Europeans were not curtailed by import restrictions in the United States and hence gradually assumed greater importance as the difficulty of making merchandise exports was increased by rising tariff barriers. The American tariff policy may, therefore, be said to have been one of the factors, possibly only a minor factor, in encouraging the upbuilding of European merchant marines, international banking services and other similar commercial activities.

Here, again, one effect of the high duties appears to have been to shift the means of payment from one agency to another. Restriction in one direction calls for expansion in another, until the sum total of payments is made up. It may be that losses to European industry resulting from lessened merchandise exports to the United States have

[6] See Clapham, S. J., *History of Trade between the United Kingdom and the United States*, London, 1899.

been partly compensated for in gains to the shipping industry, or to banking, or to trade gains in third countries, and that gains to American industry brought about by the tariff have been balanced in part by losses in other commercial activities or in other fields of commerce. The tariff on a commodity in the importing country becomes one of the factors adverse to effective production in the exporting country, and a shift is made to another exporting activity with a greater comparative advantage under the new conditions created by the tariff.

Restrictions upon Invisible Imports

During and since the Great War, in addition to tariffs on merchandise, there have developed restrictions upon several of the invisible imports of the United States. The growth of an American Merchant Marine, under government aid and encouragement, has lessened the obligations of Americans to pay to foreigners freight moneys. Developments in American insurance and foreign banking also have curtailed the amount of such services performed by foreigners. Immigration restriction is lessening the important item represented by immigrant remittances in the balancing of European-American accounts. Furthermore, the increases in tariff rates have especially affected European imports while at the same time obligations on the part of Europeans to pay large sums in interest, dividends and debt settlements have been incurred in addition to their obligations to make payments for goods imported.

Under these conditions we are witnessing another shift in the method of payment. The expenditures of Ameri-

TABLE IV—Estimated Balance of Payments, 1927 *

United States

(Millions of Dollars)

	Exports or Credits	Imports or Debits	Difference
I. Merchandise and silver	5,037	4,489	+548
II. Services and other "invisible" transactions	1,585	1,634	− 49
Freight payments and receipts	140	172	− 32
Tourists' expenditures	153	681	−528
Immigrant remittances	35	241	−206
Charitable contributions	.....	43	− 43
Government transactions (diplomatic expenses, army and navy, etc.)	57	86	− 29
Government war debt receipts	206	.....	+206
Interest and dividend, private investments	795	281	+514
Other items (insurance, patents, motion picture royalties, advertising, cables, etc.)	199	130	+ 69
III. Loans and investments	1,686	2,357	−671
IV. Gold movements	390	224	+166
Discrepancies			− 6

* Estimates modified from Commerce Year Book, 1928, page 667.

can tourists abroad for goods consumed and services rendered, important before the war, have reached astonishing proportions since the war. Nearly $700,000,000 was thus spent abroad by Americans in 1927, and the estimates for 1928 are well over $900,000,000, much of which was spent in Europe. The net of tourist expenditures due to foreigners in 1927 alone was nearly sufficient to offset the $548,000,000 excess of merchandise exports for that year. Here is an item on which the American Government has set no important restrictions, and it therefore constitutes a way for Europe to pay for her excess of imports from the United States. In the last analysis, tourist expenditures represent a substitute for the declines in merchandise exports from Europe. Europeans are selling to the Americans the services of their railways and steamships; their hotels, theatres and pleasure resorts; their educational institutions, museums and ruins. They are also selling them important quantities of merchandise—in goods consumed abroad and in goods brought home as personal allowances.

It would be rash to say that these growing expenditures by tourists are a direct result of high protective duties. Nevertheless, the tariff has helped at least to create the economic conditions favoring the European tourist trade. The responsibility of payment has been partly shifted from the industrialist to the hotel and resort keeper. If labor cannot be fully employed for producing goods to export, it becomes available for catering effectively to the traveller in Europe. It is not inconceivable that the benefits accruing to the manifold industries that serve the American tourist may be as advantageous to the economic welfare of a country as would be the growth of export commodities, now restricted by the American tariff. At least, the gains from tourist traffic are an offsetting factor to losses from exports of commodities.

Although such adjustments tend to balance losses with gains, it is evident that many of the adjustments made as a necessary result of high duties have put temporary and unnecessary burdens upon the peoples making them and have probably more often resulted in shifts to industries and methods less economically profitable than might have existed under freer conditions of exchange. The net result is doubtless an economic loss rather than a gain; but both the gains and the losses resulting from protective tariffs seem to have been exaggerated both by those who have favored and by those who have opposed the spread of the protective system.

SUMMARY

In summary, it may again be pointed out that the effects of import duties on our import trade are difficult of measurement. They are often indirect and intangible. On the whole, it seems probable that the direct effects on total volume of imports are less than is usually supposed. Since the end of the Civil War, during which the United States has been under a protective system almost, if not quite, without interruption, our import trade has enormously expanded. Fluctuations that have occurred seem to be related chiefly to factors other than the ups and downs of tariff rates. However, it is impossible to say how much more rapidly imports might have developed without restraining duties.

But if imports on the whole have expanded in spite of protective duties and in response to other and stronger forces, it seems clear that the tariff has exerted certain influences in the nature

and sources of merchandise imports. Also it seems probable that one marked effect of the tariff has been to encourage "invisible imports" as a substitute for merchandise imports. In the resultant shifts and changes in our imports, the tariff has been only one among many causal factors, and its influence often has been indirect and concealed.

As would be expected under the influence of high tariffs, the greatest gains in our import trade have been in those goods admitted free of duty. Since the incidence of duties have borne most heavily on manufactured goods, our tariff policy has affected trade with industrial Europe most. Dependent upon the United States for increasing quantities of foods and raw materials and, more recently, for certain classes of manufactured goods, Europe has been by far America's most important market. With restrictions upon her imports into the United States, it has been necessary for Europe to develop other methods and means of payment for the necessary goods received. This has been achieved partly by the method of indirect or triangular trade, partly by the substitution of services for goods, partly by the export of capital resulting in interest and dividend receipts, partly by emigration with subsequent remittances by emigrants to the mother countries, partly by tourists' expenditures.

In the latter part of the period—the period since the Great War—in addition to the payments for necessary importations from the United States, Europe has been called upon to make large payments in interests and dividends on loans and investments from America while, at the same time, her own receipts from interest payments have declined. Also, at the same time, beginning in 1922, increased import duties, especially on manufactured products produced in Europe, made payment in goods increasingly difficult and still further limitations have been placed upon the chief invisible means of payment, especially upon shipping services and immigrant remittances. The result, in connection with other causes, has been an increasing shift of payment to indirect or triangular trades; to other invisibles, notably tourists' services; and, in addition, to large increases in European indebtedness through American loans and investments in Europe.

Partly as a result of this situation, imports of merchandise into the United States from Europe have expanded less rapidly than from other parts of the world. There has thus been placed upon Europe the added burden during reconstruction of making adjustments and shifts in her trade, some of which at least are economically less advantageous than would have been the case if only economic forces were operating under less restricted trade conditions. In addition, the tariff must bear its share in the responsibility for the added complications and misunderstandings and bitternesses that have developed in European relations with the United States.

Losses, however, in one direction have been, or are being, partly compensated by gains in other directions. In the United States many of the gains that may be claimed for industry and agriculture as a result of restrictions on the import of competitive products, especially on the products of Europe, have been offset to greater or less extent by losses in other directions. Losses of export markets in European countries and in third countries where European competition meets the United States tend at least to limit any gains that may have come from a curtailment of competition from European imports in the home market. All things consid-

ered, the losses perhaps are greater than the gains. Even if, at the best, it could be demonstrated that material net gains have resulted, there still remains the offsetting fact that the system of excessive trade restrictions has placed upon the country large burdens of administration at home and is a fruitful source of ill-will and misunderstanding abroad. And ill-will is not an asset in commercial expansion, either national or international.

Quarantine Measures as Trade Barriers

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QUARANTINES are indispensable for the exclusion of new insect pests and animal diseases from the United States. The insect and disease hazards to which American agriculture is subject are chiefly of foreign origin. Practically no control over the entry of foreign pests was exercised prior to 1912. As a result, a stream of new enemies dangerous to our agriculture became established within our borders. In the four years immediately preceding 1912, a memorable year, since it saw the enactment of the plant quarantine act, no fewer than six new major pests got into the country. These were the oriental fruit worm, the Japanese beetle, the citrus canker, the potato wart, the camphor scale, and the European corn borer. In previous years freedom of entry permitted the introduction of the Hessian fly, the cotton boll weevil, the alfalfa weevil, the browntail and the gipsy moths, the chestnut blight, the white-pine blister rust, wheat smut, and many others representing approximately 50 per cent or more of our existing important animal and plant pests and diseases.

Quarantines for Protection

Animal quarantines were established as long ago as 1865. This fact is one of the principal reasons why the United States is freer from animal diseases than most other countries. Such contagious animal diseases as African horse sickness, ulcerotic and epizootic lymphangitis, mal de caderas, cattle farcy, nagana, rinderpest, and surra have been kept out. Contagious pleuropneumonia gained entrance to this country on one occasion. It required five years and an expenditure of $1,509,100 by the National Government, in addition to what the States expended, to eradicate the disease. The southern cattle tick, which has cost about $31,500,000 in eradication work since 1906, no doubt was brought into the United States in colonial days by the importation of cattle from a foreign country. Foot-and-mouth disease has occasionally appeared.

The cost to the Federal Government and the States in eradicating the 1902, 1908, 1914–15, and 1924 outbreaks was approximately $17,440,000, and a conservative estimate places the indirect losses at not less than $165,000,000. Our experience with these evils is sufficient in itself to justify the quarantine policy now in effect.

Impartial judgment can not fail to recognize the value of plant and animal quarantines for the protection of our agriculture. Our plant and animal quarantine laws are among the most useful measures ever enacted for the protection of agriculture, and the only question about which rational debate can arise is as to the manner in which these laws are administered. Unfortunately considerable misunderstanding exists, both at home and abroad, with respect to the control features of the quarantine acts. Control measures are necessarily irksome. Such measures mean expense to the commercial or agricultural agencies involved. It is not practicable to saddle the entire cost of quarantine administration on Government agencies,

and it would not be fair to do so even if it were practicable. Inevitably, however, individuals whose business is burdened with costs arising from the imposition of quarantines are tempted to question the utility of the proceeding. They may doubt the necessity or the effectiveness of the quarantines. As interested parties, their feeling on such questions is entitled to sympathetic consideration, though it may often include an element of natural bias.

EFFECTS ON TRADE

In addition to the cost of quarantine administration there is the effect of such action on trade. It is practically impossible to restrict trade in one place without stimulating it in another. This result of quarantine enforcement invariably causes heartburning and sometimes excites the suspicion that the primary object of the quarantines is not their ostensible one. In other words, the charge is made that the quarantine enforcement officials use their administrative powers, not primarily to safeguard American animals and plants from diseases and pests, but rather to benefit certain favored commercial industries. The accusation, in short, is that the quarantine laws are made to function as tariff laws.

It has frequently been necessary, for example, to meet such accusations in connection with Federal Fruit and Vegetable Quarantine No. 56. This quarantine prohibits the shipment of citrus fruits, grapes, and other products into the United States from countries where the fruit and melon flies are established. The importation of raw cherries is prohibited because of the cherry fruit fly. All the countries where the pests in question are known to exist are affected. Nevertheless, the charge has repeatedly been made that the restrictions are discriminatory and intended chiefly to influence trade movements. This charge is difficult to refute to persons who consider themselves aggrieved. Though biological motives may be solely responsible for the imposition of a quarantine, the results of such action are commercial as well as biological. Yet the department has not been without success in demonstrating the bona fide character of its quarantine administration. For example, the Mediterranean fruit fly, one of the most serious fruit pests, is the subject of a quarantine to prevent its entry in commercial shipments. Some years ago grapes from a certain section of southern Europe were excluded to protect our orchards. Though misunderstood at first, this proceeding was eventually recognized by the foreign authorities as purely a quarantine measure.

More difficulty was met with in connection with the reasons for action taken to prevent the introduction of foot-and-mouth disease and of fruit flies in importations of meat and of grapes from South America. The regulations of the Secretary of Agriculture have for many years prohibited the importation of susceptible animals from countries where foot-and-mouth disease exists. In view of our experiences and the knowledge acquired recently through scientific investigations of the ways by which this disease may be disseminated, it was deemed necessary, about two years ago, to prohibit the importation of fresh or frozen meats from any region of the world where foot-and-mouth disease or rinderpest exists, since it has been established that foot-and-mouth disease may be communicated to susceptible animals by scraps of meat from infected carcasses. An outbreak of foot-and-mouth disease in the United States in 1914 was definitely traced to infection from feed or garbage. A

similar source of infection was discovered in the outbreak of 1924.

Strong protests were made in South America against the above-mentioned embargo. An official of this government, while in that region, spoke of the economic aspects of the quarantine in a manner which led to misapprehension. In a sense, of course, such embargoes are designed to yield economic benefits. Their purpose is to exclude pests or diseases which may cause losses. The remark in question was taken to imply, however, that the restriction was conceived primarily as a commercial protection, that is to say, as a tariff measure. As a matter of fact, the biological reasons for taking precautions to exclude foot-and-mouth disease and fruit flies are overwhelming. The fruit fly is not at present established in this country and the foot-and-mouth disease has been stamped out on every occasion on which it has appeared. Desire for continued immunity is sufficient justification for the quarantines. The possibility of incidental commercial benefit is relatively insignificant.

IMPORTANCE OF PROTECTIVE ACTION

When the security and the future of important American agricultural interests are menaced by the possible entry of an animal or plant pest it is of paramount importance to take appropriate protective action. This is strikingly illustrated by our experience with the corn borer, for the control of which Congress, in 1927, appropriated no less than $10,000,000. Foreign pests, when introduced into the United States, frequently become much more injurious than in their original home. This is conspicuously the case with the corn borer, the Japanese beetle, and the chestnut blight. Several thousand species of harmful insects and plant diseases which exist in other countries have not yet been established in the United States. It is the purpose of our plant and animal quarantines to keep them out. In some cases inspection and disinfection at entry ports are apparently sufficient.

In general, however, inspection and disinfection are inadequate safe-guards. This was determined by a practical seven-year test prior to the issuance in 1923, of Quarantine 37, on nursery stock, plants, and seeds. Under this trial system foreign plants were allowed unlimited entry under foreign inspection and certification, with such reëxamination of the imported material as was possible at entry ports in the United States. The method failed lamentably. Though dangerous pests were frequently intercepted, others eluded discovery and became established in our orchards and fields.

The present policy provides for regulating the entry of plants and plant products and of animals and animal products from countries whence pests may be imported. Plants for horticultural, educational, and scientific needs are not embargoed, but admitted under a policy of restricted entry. That this system is not unduly restrictive may be seen from the fact that from 1919-25 our importations of plants governed by restrictive orders totaled nearly 50,000,000 specimens, including 80,000 rose plants, 1,000 different varieties of gladioli, and 1,700 different varieties of dahlias. At present twenty foreign quarantines and numbered regulatory orders prohibiting or restricting the entry of plants and plant products into the United States are enforced.

Outcry has been particularly loud against the nursery stock, plant, and seed quarantine. Objections to this order have been made both within and without the United States. American importers complain that their business is arbitrarily injured and foreign ex-

porters bewail the loss or the limitation of a valuable market. It is undeniable that the nursery stock, plant, and seed quarantine order inflicts hardship on certain commercial interests. Such hardship, however, as I have already observed, is inseparable from the enforcement of a regulatory order. Trade restrictions can seldom be imposed without causing expense and loss to someone. The question, of course, is whether the action taken is justified. The sufficient answer, with respect to this particular quarantine, is the fact that imported nursery stock and other plants and seeds have been the source of the introduction of about 90 per cent of the insect pests and plant diseases that have entered the United States from abroad. When this appalling fact is borne in mind, the justification for restricting the entry of most nursery stock and ornamental plants will be conceded by all impartial persons.

In view of this situation and particularly in view of the extensive manner in which similar restrictions are enforced in other countries, it is difficult to understand, except on the ground of purely selfish commercial reasons, the foreign misinterpretation as to the purpose of the plant and animal quarantines imposed by the United States. As a matter of fact, the United States was slow to realize the risks attending the international shipment of plants and plant products. Leading continental countries, half a century ago, prohibited the importation of American plants in connection with phylloxera, an American pest. Such prohibitions were made practically complete twenty-five years later on account of the San José scale.

Moreover, the foreign quarantines were actual embargoes and not restrictive regulations, like those generally enforced under the quarantines of the United States. Certain European countries, notably Holland, Germany, and France, maintain severe restrictions against the entry of our fruits and fruit products. England has recently tightened up her restrictions on the entry of plants from all foreign countries. France prohibits the entry from the United States of shrubs, trees, nursery stock, cuttings, and all other live plants or parts thereof. Belgium prohibits the importation of plants attacked by insects or disease. Restrictions are also imposed by Italy, Spain, Turkey, and Russia.

QUARANTINE POLICY EMPHASIZED

To correct this situation, this Government's foreign representatives have been repeatedly requested to point out and emphasize the fact that all such quarantine regulations promulgated by the United States are intended solely to reduce the risk of introducing dangerous pests and have no tariff object whatever. Nevertheless, it appears that even this has not entirely dispelled the notion that our quarantine laws are for the purpose of commercial or trade protection. Our representatives have also been requested to point out that restrictions on the entry of foreign products are duplicated rigorously among the States of the Union to prevent the spread of pests, newly introduced or otherwise, within our own borders. But no foreign article of commerce is either restricted or prohibited entry into the United States under plant or animal quarantines when it is believed that such article can be imported without known and serious risk. Immense quantities of fruits and vegetables and animal products constantly enter the United States in spite of the fact that such entry often entails competition keenly felt by our own producers.

It must be recognized in all fairness

that when our shores are threatened with the invasion of a new pest, protective action must be prompt, regardless of any temporary damage that may be done to trade. Delay may be fatal. In short, the policy necessary in quarantine enforcement, in sharp contrast to what is appropriate in tariff making, must ignore immediate commercial considerations, in order to safeguard the country's ultimate interests.

The record shows that, when the occasion for restriction has passed, quarantines are removed. Only last year (1927), for example, a quarantine on the importation of Christmas trees and evergreens from Canada was removed, on proof that a Canadian area previously infested with the gipsy moth had been cleaned up. In like manner a quarantine formerly imposed on importations of wheat, oats, barley, rye, and other grains from countries where the disease known as "take-all" prevailed was removed when the emergency disappeared. This was done regardless of the effect produced on grain shipments. Similarly, the quarantine on Canadian and other foreign potatoes on account of powdery scab was withdrawn following the determination of the apparent unimportance of this disease, opening at once our potato producers to very serious competition, particularly from Canadian growers. In short, any commercial benefit which quarantines may incidentally confer on domestic producers is liable to be changed into a drawback by the removal of the restriction on imports. This is a hazard which only a short-sighted advocate of protection by the embargo method would care to incur.

Quarantine and the Tariff

Though it may be difficult to furnish absolute proof that quarantine action is motivated exclusively by biological considerations, the probabilities of the case strongly support that claim. This is an age of specialization. It would hopelessly compromise the efficiency of pest control to complicate the work with complex commercial considerations. The officials charged with the administration of the plant and animal quarantines are entomologists, biologists, silviculturists, and animal-husbandry experts. They are not economists or tariff experts. Their great responsibility is to enforce laws designed to protect agriculture from its biological enemies. They could not discharge that duty acceptably were they to engraft upon it illegitimate tariff-making functions. In the modern world efficiency is impossible without the specialization and subdivision of functions. Both pest control and tariff making are difficult and complex problems. Their difficulty and complexity would become hopeless were they to be systematically confused and intertwined.

Theoretically, of course, it would be possible to use plant and animal quarantines for tariff purposes. This is so obvious that persons representing agricultural interests occasionally urge the imposition of quarantines as protection against foreign competition. These persons are invariably told that the quarantine action of the department is limited to the control of serious plant and animal hazards. They are advised that appeals for trade protection should be made to the United States Tariff Commission or to the President. Our tariff laws are frankly intended for the protection of American economic interests, and the provision for flexible duties affords means whereby changing conditions may be dealt with by executive action. No real necessity exists, therefore, to seek by a roundabout course, through quaran-

tine action, what the settled national policy and the tariff laws provide for in an open and straightforward manner. When an object can be accomplished satisfactorily by direct means, it is unnecessary and inefficient to employ indirect means.

Another objection to the idea that quarantines are used as tariffs is the fact that quarantine policy, if it is to be effective, must be completely divorced from barter. In this respect pest control is in the sharpest possible contrast to tariff making. It would be absurd for the Plant Quarantine and Control Administration to say to a foreign country, "You let our pests in and we'll let yours in." In tariff making, however, the principle of barter is legitimate and is universally recognized as such. Tariffs may be judiciously employed to stimulate as well as to regulate international trade, an object commonly promoted by "most favored nation" clauses.

If quarantine administration became involved with tariff considerations, the barter principle would creep into it inevitably, with unfortunate results. Efficient administration of plant and animal quarantines is impossible unless quarantine authorities can maintain their freedom to act as biological circumstances require. Their usefulness would be largely gone if the integrity of quarantine policy were compromised by any extraneous purpose whatever. These arguments apply to all countries equally. They have no greater force in regard to the quarantine policy of the United States than in regard to that of France, Great Britain, Spain, or Argentina.

The best defence against the charge that American quarantines are sometimes illegitimately used will be found, not in mere protestation that such is not the case, but in the general argument that quarantine control and tariff making will not mix. The points of contrast are numerous. In tariff making, for example, it is essential not to disturb confidence or to vex business by frequent changes or by needless uncertainty. Quarantine administration must reject the rule of stability. It must be prompt and unsparing when necessity arises. In other words, it must always put ultimate biological considerations above trade interests. It should be borne in mind, too, that quarantine officials are scientists whose reputation for scientific integrity, which they naturally prize, could hardly survive any well-founded suspicion that they were influenced by other than scientific motives. Were they truly open to that charge, evidence of the fact would be abundant in reports, official and unofficial, of their proceedings. If quarantine control and tariff making were really interrelated in our governmental policy, the fact could not be concealed.

Reciprocity as a Trade Policy of the United States

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RECIPROCITY was one of the first of the hit-or-miss policies of the United States in international trade. A policy of this peculiar type was only made possible through the unique interpretation that was made of the "most-favored-nation" clause from the early beginnings of United States trade and treaty history. The other nations of the world, in general, adopted the unconditional interpretation of the clause, whereas the United States adopted the conditional interpretation.

The most-favored-nation clause, unconditional or European type, is a promise to grant, in articles specified in the treaty, the same or equal treatment to citizens of other states as to citizens of any third state. The effect of this clause is not to establish a nation more favored than any other but rather to maintain equality of treatment and to affirm to each state that it would at all times be treated as favorably as another state which is most favored. The ultimate result is to obtain for each contracting state any advantages which a third state may have secured. The underlying principle of unconditional reciprocity is that states should be given and should grant equality of treatment in commercial affairs.

The American interpretation of the most-favored-nation clause, before the 1922 Fordney-McCumber Tariff Bill became law, was that advantages granted to one nation did not accrue to another unless a *quid pro quo* was paid. Thus, under the unconditional form, if A grants unconditional treatment to B in certain articles of commerce and subsequently B arranges an unconditional most-favored-nation treaty with C for the same articles, any advantage which B may have secured from A, or B may have secured from C, or C from B, or A from B, automatically accrues to all the parties; whereas under the conditional form, it would be necessary for C to give A a consideration for any benefits B may have secured from C in order for C to secure those benefits.

The conditional interpretation of the "principle" made reciprocity a feasible and logical growth in the United States for many years. Reciprocity, to the United States, meant a giving of a "*quid pro quo*" and not the automatic extension of rights as was customary under the unconditional interpretation. The early adoption by the United States of the conditional interpretation of "most-favored-nation" reciprocity prepared the way for some adventures in reciprocity.

Adventures in Reciprocity

A number of business men conceived the idea of an American Zollverein, about 1846, due to the success of the German Zollverein. They believed the success of the German Zollverein was due to the so-called reciprocity treaties it had negotiated with European nations. The United States too had made a treaty with the German Zollverein in 1844, but the Senate rejected it. This was the first venture into the field of reciprocity. In 1859 a reciprocity treaty was negotiated with Mexico but the Senate rejected this too. After a strenuous campaign a reciprocity treaty with Canada was made and ratified in 1854 and lasted twelve years.

Further attempts at reciprocity failed. Interest died and the movement was checked by political and social disturbances in the United States. Protectionists increased in number and influence. Later Canadian sympathy for the South, coupled with false accusations of discrimination, led to the abrogation of reciprocity with that country in 1866.

The second reciprocity venture was with Hawaii in 1876,[1] and was known as "tropical reciprocity." This policy was more or less continuous until Hawaii was annexed in 1900. Reciprocity with Hawaii was dictated by considerations very different from those in the case of Canada. It was a political movement as well as a commercial trade policy. Likewise, it was easier of attainment because of differences in climate and industry which resulted in non-competitive products.[2]

The case of Cuba merits a special word and should not be considered as a part of the general policy. In 1898 the United States had promised the Cubans that when they achieved independence they would be given special tariff reductions. This promise was made because Cuba was regarded as a ward of the United States. However, when the time arrived, Congress was high protectionist and deferred granting special reciprocity to Cuba, lest it might be a precedent in other directions. Public opinion became so strong by 1902 that Congress felt it had to pass a bill. Just then difficulties with the Philippines and the Panama Canal project arose and the bill failed to come to a vote.

[1] The first reciprocity treaty with Hawaii was negotiated in 1855 but was not presented to the Senate. Secretary Seward considered the matter again in 1867. A treaty was presented to the Senate in 1870 and rejected.

[2] The McKinley Bill of 1890 was thought to abrogate Hawaiian reciprocity so a provision was inserted which excluded Hawaii from its operation.

President Roosevelt negotiated a treaty with Cuba later in 1902 which was proclaimed in December, 1903. This is the only reciprocity treaty the United States has today and it will probably remain because of the peculiar political origin of Cuba and her geographical position and products.

RECIPROCITY CHANGES

In the late eighties the reciprocity idea underwent a change. A new concept of using reciprocity as a weapon, and as a method of securing new markets, especially in Latin America, arose. Special clauses were written into tariffs with this end in view. This method seemingly failed. Yet a careful and critical analysis seems to show that an insufficient trial was given this experiment. However, it is perhaps well that more time was not given since it engendered considerable bitterness. When President Harrison began his administration in 1887 he brought with him rather set views on reciprocity. Although he was a protectionist he sent Congress a report of the International American Conference on the Tariff, which recommended the adoption of reciprocal commercial treaties with all the American republics. However, it was not until the McKinley Bill of 1890 that this principle was adopted. It was done at the request of Mr. Blaine. This principle was contained in the famous reciprocity Section 3 of the McKinley Tariff. It provided for admission of non-competitive products into the United States and the purchase by such concessions of differential advantages for United States exports in markets where they competed with those of other countries. The United States Supreme Court declared the reciprocal features of this act constitutional.[3]

The only important application of Section 3 of the McKinley Act was the

[3] *Boyd* vs. *U. S.*, 143 U. S. 649.

Brazilian Treaty of February 5, 1891.[4] Under this treaty Brazil retained the advantage of the free admission of sugar, molasses, hides, coffee, and teas, and the United States secured free admission into Brazil for a long list of agricultural products and manufactured goods.

An attempt was made in 1891 and 1892 to carry the reciprocity provisions of the McKinley Act further. Mr. John W. Foster, Republican Secretary of State, essayed to secure general acceptance of the principle throughout Latin America. Treaties were negotiated with Spain and England for their American possessions, with Santo Domingo, Guatemala, Salvador, Costa Rica, Honduras, and Nicaragua. These treaties in reality carried into effect the idea of tropical reciprocity and were all alike. They gave the United States an unusual advantage in foreign trade for practically no concessions at all. Colombia, Chile, and Argentine Republic refused to negotiate similar treaties. It was found that the reciprocal provisions of the McKinley Act opened the field for markets in Europe. A treaty was negotiated with Germany, January 30, 1892, and another with Austria-Hungary, May 25, 1892. The former gave advantages to the United States agricultural products and the latter to manufactured products.

The results of the McKinley Act were generally disappointing perhaps because the Act was not in operation long enough. In 1892, the Democratic administration of Grover Cleveland passed the Wilson Bill which aimed to stop reciprocity because it was being used as a weapon to force Latin America to open its markets to the United States. This law cancelled the treaties made under the McKinley Act. The Democrats believed international bad feeling would result from the operation of such a form of reciprocity.

The Dingley Tariff Bill

The Dingley Tariff of 1897 provided in Sections 3 and 4 for reciprocity. The bill was protective, and in general raised duties. The act adopted in a modified way the tropical reciprocity of the McKinley Bill for the purpose of securing new markets in Europe. Certain concessions were to be made to countries in which it was thought a market could be had for the manufactured articles of the United States. However, the articles granted these concessions were not to be those which would compete with home industries. The framers realized that the field in which these concessions could be made was very limited and the bill therefore provided that if European countries made certain concessions, *i.e.*, permitted the entry of United States merchandise at a lower rate than that of competitors, the President, in return, could admit at lower rates argols, or crude tartar, wine lees, paintings and statuary, etc. If concessions were not granted to the United States, the President was authorized to order the collection of taxes on the articles named as a sort of penalty.

Not yet satisfied, the framers of the Dingley Bill added a further feature, that all arrangements made under the reciprocity features were to be made "by and with the advice and consent of the Senate." It was further provided that the agreements negotiated were to provide for the admission of merchandise of the United States into foreign countries on as favorable terms as possible. The President was authorized to grant a reduction of 20 per cent of the duties provided in the act for a period of not more than five years. Ratification was necessary by the Senate and thus the hands of the President

[4] Sen. Exec. Doc. No. 119, 52nd Congress, 1st session.

were very effectively tied. A larger field for reciprocity was opened, provided Congress was sufficiently amenable to be guided by the President.

The act was a great step forward in providing the basis for a strong reciprocity trade policy, although it did deal a blow to the South American reciprocity features of the McKinley Bill by putting fewer articles on the reciprocal list. This was probably due to the fact that the McKinley Act had aroused the animosity of our competitors for South American trade. Thus the offensive features of the McKinley Act were eliminated and a nicely coated pill of "nothing" was offered to Latin America. Hides were taken from the reciprocity list as well as sugar. Tonka beans and vanilla beans were substituted for free hides and free sugar. Only coffee and teas remained on the free list.

Upon the passage of the Dingley Act, President McKinley immediately appointed "a Reciprocity Commission to negotiate treaties." In 1897 John Kasson of Iowa was appointed special commissioner. Treaties were negotiated with France, Portugal, Germany and Italy under Section 3, of the act. Later a treaty was negotiated with Switzerland. Kasson likewise negotiated treaties with Great Britain for her American possessions, Turkey, Denmark, The Dominican Republic, Nicaragua, Ecuador, and Argentina. All these treaties failed of ratification when presented to the Senate 1899–1900.

Reciprocity as an American commercial policy reached its lowest ebb during 1901 and 1902 when the question was lost in the Cuban situation. Protectionism had grown entirely too strong. Reciprocity as a trade policy was not considered of much value by the manufacturing interests because of the "export price system." Likewise, the growth of European manufacturing cartels seemingly made reciprocity ineffective as a method for securing markets because of the intensity of the competition and because of government protection in foreign countries. The reciprocity protagonists suffered a great diminution of zeal too, probably because of the intense bitterness of the fight they waged for so long to secure reciprocity with Cuba. From 1903 to 1909 the question was a closed one.

New Tariff Bills

In 1909 a new tariff law superseded the Dingley Act. This act provided for the abrogation of all existing reciprocity treaties except the one with Cuba, and substituted a two-schedule tariff system. The minimum rates were thus expressly stated in the law. The maximum schedule was 25 per cent higher than the minimum. It was, in reality, a penalty schedule to be applied after the Tariff Board had made an investigation and a recommendation to the President that the maximum schedule be applied. The Tariff Board found France, Germany, and Canada among discriminating nations. These countries then stopped some of their practices. It is interesting to note that the maximum rate was never applied. This penalty method did not constitute reciprocity and was a departure from the old policy of seeking special favors by granting reciprocal concessions.

Special reciprocity of the Cuban type was attempted again in 1911 during the administration of President Taft. The President believed that the Tariff Act of 1909 would cause a tariff war and decided to negotiate for reciprocity with Canada. To accomplish this he sent to Canada his emissary, Henry Emery, Chairman of the United States Tariff Board. Emery had a number of conferences but nothing was accomplished. President Taft took up the

matter with the Canadian Minister of Finances, March 19, 1910. Formal negotiations were opened and a treaty was made which was to secure for the United States intermediate rates on thirteen articles. However, the Canadian Parliament thought there had been coercion and rejected the treaty.

An attempt was then made to secure reciprocity by concurrent legislation. The 1911 bill for reciprocity with Canada was passed with the assistance of Democrats and Progressives and approved by the President on July 26, 1911. However, Canada again rejected the offer. It is said that this act is still law in the United States and if suitable legislation were passed by Canada reciprocity would result. This is almost an impossibility in view of the unconditional interpretation of the most-favored-nation clause adopted in the Tariff of 1922.

The Underwood Tariff of 1913 gave little attention to furthering a thorough-going reciprocity policy. This tariff did away with the maximum and minimum schedules of 1909 and authorized the President to negotiate reciprocity agreements effective upon approval by Congress. This resembled somewhat the Dingley Tariff provision. The 1913 act stated expressly that reciprocity was a method of encouraging international trade. Nothing was done in the way of treaty arrangements possibly because of the war. This section of the 1913 tariff was not included in the Fordney-McCumber Bill of 1922, as finally passed.

Since 1909, tariff laws have contained provisions for trade reciprocity of general applicability, and framed with a view to the present international trade conditions of the world. When the tariff question and thus incidentally the reciprocity problem, came before Congress in 1921, the Tariff Commission was vitally interested. The Commission's study of the question led them to believe that reciprocity, based on special concessions, was of little practical benefit to the commerce of the United States.

A bill was presented in Congress along the lines of the Dingley Act in that it authorized special reciprocity agreements and included the penalty provisions of the Act of 1897. This bill passed the House. The Departments of State and Commerce appealed to President Harding to prevent the passage of the bill. The President thereupon requested the Senate to frame a more flexible tariff, meeting trade needs. The Senate then considered a new line of policy. Senator Smoot introduced an amendment in January 10, 1922, which became known as the famous Section 317. After a long battle Congress passed the Fordney-McCumber Bill in the closing days of the session. It was thought that the new bill made reciprocity as an international trade policy impossible because it recognized the unconditional most-favored-nation interpretation. Section 317 of the Tariff of 1922 suggested the negotiation of a system of commercial treaties guaranteeing equality of treatment to all nations. Section 317 is strangely reminiscent of certain features of the Dingley Act, and yet is merely a method of avoiding discrimination and unfair practices.

A New Type of Reciprocity

The Tariff Act of 1922 is high-protectionist to the core. It is a tariff which seeks markets and demands the "open door" and at the same time provides virtually complete domestic protection. Thus the act sets forth certain principles and provides for certain practices which seem definitely to constitute a new commercial policy. Congress at last realized that a new *status quo* was brought about by the war.

Thus the United States policy of reciprocity, if it may be called a policy, has been carried out in three special treaties, those with Canada, Hawaii, and Cuba, in penalty provisions of various tariff acts, and in sections of tariff acts authorizing executive action in trade matters. The Tariff Act of 1922 which seemingly ended reciprocity was really the beginning of a new type of reciprocity—the unconditional most-favored-nation interpretation.

There is a strange thing to note in international trade policies abroad since the war. As the United States discards her specialized conditional form of reciprocity and accepts the European interpretation, Europe is reverting to *quid pro quo* or conditional reciprocity. This is seen in the development of preferences, special reciprocity agreements, and bargaining tariffs. Conditional type reciprocity must not yet be regarded as a dead issue in the United States. A review of the last decade indicated that conditional reciprocity is not a profitable nor beneficial method of promoting United States international trade, yet such is human nature that the erstwhile foes of special reciprocity now see in it a method of circumventing the present tariff plan. For the present at least, the United States has accepted a broader policy of reciprocity.

The core of unconditional reciprocity is amicable reciprocal dealings with the whole world. A new policy was made necessary by the war—or reciprocity would have been defeated. In fact, since 1894, the tendency of the United States has been towards this type. Equal rates for all and special privileges for none expresses the essentials of the new plan. "Defensive duties" is one of the features of the new plan, and will safeguard the United States against unfair practices of other nations.

Treaties, carrying out the new unconditional interpretation of the most-favored-nation clause have been and are being negotiated with a number of nations. Negotiations have been completed with Brazil, Austria, Costa Rica, Czechoslovakia, Finland, Germany, Guatemala, Honduras, Hungary, Latvia, The Netherlands, Nicaragua, El Salvador, Spain, and Switzerland. The Senate has given the necessary ratification to these treaties.

No nation can longer shape its policies without regard for those of other countries. It may be that the United States will stand alone in its new policy of unconditional reciprocity. Nevertheless the "defensive duties" feature of the tariff will prevent any discrimination against the commerce of the United States. The special bargaining policy of Spain and France and intra-imperial preference policy of Great Britain are examples of hostile policies.

In 1922 the United States voluntarily abandoned its preference agreement with Brazil. This was in accordance with the new policy. Its place was taken by a new treaty reciprocally pledging unconditional most-favored-nation treatment. This was the first treaty negotiated under the new policy.

The old policy of reciprocity was used by the United States to secure world markets during a period when the United States was "feeling out" for world markets. The new policy fits in better with present world conditions, and may bring back other nations to their former unconditional reciprocity plan. The greatest enemies of the new policy are the "political monkeys" who want to tinker with the works to satisfy special greeds.

The crucial test of the new plan will come in the exchange of commodities in world trade markets. Let us hope that

Congress will allow the law to remain long enough to test its merits, for it is an experiment well worth a fair trial. The new policy should be to the definite advantage of the business interests of the United States and should promote international good will as well as trade.

Mass Production and the Tariff

By Edward A. Filene
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ALL who have closely observed industrial progress in recent years, particularly since the war, must be impressed by the outstanding success of big-scale business. When we examine more closely the growth of the new scientific methods of mass production and mass distribution we discover not only that they are conquering the old industrial processes in the United States but that they must, inevitably, lay the course for the future industrial development of the world.

Mass production and mass distribution are also revolutionizing our thinking. Especially is this so in the field of economics. Economists as well as business men begin to see the implications, as well as the immediate results, of the new industrial methods. The relations between scientific mass methods and the economic structure of the world go far beyond the question of cheaper production through volume output. Mass production, for example, raises anew the question of world trade because the vastly increased volume of goods produces surpluses which cannot be marketed except in foreign lands. The surplus—that is, any general surplus—is relatively new to American industry. It is destined to change our views about tariffs. In the long run, we will change, through force of economic circumstances, from a nation of protectionists to a nation of low tariff advocates, or free traders.

I do not state this as an advocate of free trade myself. I am not now and never have been a free trader, but always have been an opportunist on tariff matters. I believe that conditions and not theories must determine tariff policies. In the present discussion, therefore, I shall merely undertake to show the inevitable relation between scientific mass methods and the tariff. I shall state the facts of cause and effect. I shall not argue the merits of the question one way or the other.

Mass Production Conquers Industry

By scientific mass production and mass distribution I mean the processes by which greatly increased quantities of articles are made at low cost through the practical elimination of overhead expense per unit. Specifically it is the process that Henry Ford inaugurated in the automobile industry and which now so dominates that field that three manufacturing concerns—General Motors, the Ford Company and the Chrysler interests—produce more than 80 per cent of the cars made in this country.

This mass principle has been extended to other fields and its penetration proceeds at a rapid rate. Mass production methods are now used in the manufacture of most of the commodities in wide demand and which are sold through such mass distributing organizations as Woolworth's, the Penney Dry Goods stores, the stores of the big mail order houses, the Atlantic and Pacific chain and similar concerns in every retail field.

The principles of mass production—at low cost per unit—which enable it to drive other methods out of com-

petition, are axiomatic and quite simple. They are, briefly:

1. Scientific management and improved machinery increase the efficiency of labor and the output per man.
2. Simplification and standardization of products also adds enormously to the volume.
3. Overhead expense is reduced, through the volume of production, to the point where the charge against each unit is relatively small.

It is apparent that we cannot hope to compete against such methods if we plan to make only a few hundred or a few thousand articles. No automobile manufacturer can make a Chevrolet or a Ford automobile on a production schedule of 50,000 or 100,000 cars a year. He would have to make something over a million cars, even under the most scientific methods, to compete in price with the General Motors Company or the Ford Motor Company which have their overhead costs per unit cut to the bone and have, in addition, achieved other vast economies in the purchase of material, advertising and marketing.

The World Adopts American Methods

I do not see how the prediction that mass methods will dominate the world can seriously be questioned. It seems clear and simple that mass methods will come to all productive enterprises everywhere as they have to the automobile industry in the United States. Citroën in France and Morris in England have plants which are as modern and as scientifically organized as any American factories. Bata, in Czechoslovakia, is producing by mass methods shoes that sell in all parts of the world. These are but a few of a rapidly growing number of European industrialists who have already adopted the newest methods of production.

It is of no value to produce goods in great quantities, even though the production cost is low, if the goods cannot be sold. Mass production can live only if there is mass consumption—that is, only if the masses are able to buy the goods produced. Fortunately mass production produces consumers as well as products. Both are possible to mass production because:

1. With mass production employers can pay high wages because of the increased productivity of their employes—the difference between a high wage and a low wage tends to disappear in the cost of the average article when it is made in great volume.
2. Also, mass production makes its greatest total profit on the smallest profit per unit, and therefore thrives on low selling prices which create wider markets.

So, through low production costs and low retail prices, mass production enables manufacturers not only to pay high dollar wages but further to increase the buying power of the masses by increasing the amount of goods the consumers' dollar will buy.

Consumers Set the Selling Price

One other point must be considered before mass production can be viewed in its international aspects—one that violates traditional concepts of economics. Under mass production the consumers and not the manufacturers set the final selling price. Under the old industrial methods where output was limited, factories produced only the number of products they thought they could sell. Then, roughly speaking, they computed their costs, added their profits and so established a selling price. Under scientific mass production and mass distribution the price that the public can pay determines the selling price. The manufacturer is

compelled to produce in such volume that his lower costs and reduced overhead enable him to sell at the price the masses can afford.

Henry Ford's practice has been to establish first a selling price for his car that will be low enough to give him millions of purchasers. Then he devotes himself to working out economies in production that will make his costs low enough to permit him to sell at the established price and still make great total profits.

The cardinal principle of mass production is to fix the final price within the paying power of the mass of consumers, and constantly to reduce the price so as to reach additional millions of possible buyers who do not lack the desire, but only the means, to buy.

The opportunity for mass production and mass distribution in the United States is enormous. What the automobile industry has accomplished can be duplicated in the manufacture and marketing of all the basic commodities. Applied to the necessaries of life the new methods will bring prosperity far beyond what most of us have dreamed of.

But there is one very important reservation: the surpluses produced under mass production must be profitably exported. At this point we enter the realm of international trade and the tariff. There is no way to evade the issue because we cannot, as a practical matter, avoid the production of surpluses.

Industry Needs Wide Markets

The United States has a greater domestic market than any other nation—a population of 120,000,000 consumers who are more prosperous than any people has been in the history of the world. Yet this great market cannot absorb all the goods we are able to produce. Competent authorities have estimated that our productive capacity, in existing industrial plants, will produce a surplus amounting to one-third of the total production in many lines. That compares with a ratio of one-seventh before the war.

The surpluses created by operating our plants at capacity must be sold in foreign markets. If they are not we have a period of super-competition in the domestic market which destroys profits, reduces wages, and creates widespread unemployment with grave social and political evils as a consequence. Europe is experiencing these evils today. We will experience them tomorrow unless the world is organized for efficient production and an orderly trade.

The joint salvation of the nations of the world lies in the exchange of their surplus goods. Here the problem of tariffs becomes vital because tariffs restrict trade. Business men recognize now that it is important to the United States for Europe to remove or lower its high tariffs against our goods. They will come to see that it is important for Europe—and the United States—that we lower our tariffs. If we do this two results will follow:

1. Europe can sell to us in greater volume, and so be able to buy our surplus goods on the export of which our prosperity depends.
2. Our cost of living will be substantially reduced, and our production costs will be lowered—which will enable us to compete more successfully in foreign markets.

Mass Production Needs No Tariff

In such an arrangement, it is true, we give up something. We give up a certain amount of "protection." But the value of that protection is more apparent than real. Mass production, to which the world is coming, needs no tariff protection. On the contrary, it

will benefit from low tariffs, or free trade. Under a very low tariff, which would reduce living costs and the costs of raw materials, Chevrolet and Ford automobiles, for instance, could be produced very much more cheaply.

The reduced selling price would not only tap a new market of millions at home, but would permit our manufacturers to export in greater quantities. At the lower selling price they could undersell European manufacturers even in their own markets, which are now "protected." American-made automobiles are handicapped by a tariff in England, for example, that amounts to 33⅓ per cent.

Regardless of what the rest of the world does, then, business men will come to see that it is distinctly to our advantage to have lower tariffs, with the resulting lower costs of living and lower costs of production. But this will prove to be a narrow view of the question. After all, it will be seen that other nations must be prosperous if we are to be prosperous.

The value of what I call "companionate prosperity" is, unfortunately, not yet generally understood. All the nations of the world are necessarily companions in prosperity and companions in adversity. Great as is our prosperity in the United States today, for example, few will deny that we should be even more prosperous if the farmers were more prosperous. Likewise, if the people of France have only enough buying power to obtain the bare necessaries of life, they cannot buy from Germany and England. That in turn reduces the prosperity of England and Germany, who do not buy as much from France as they otherwise would. So the people of France, by their own poverty, make themselves even poorer.

TARIFFS STUNT INDUSTRIAL GROWTH

These simple truths, when accepted, will clarify discussion of the tariff question. Europe, exclusive of Russia, is about the size of the United States. It is cut up into many nations, each with a tariff wall built on racial and political rather than economic considerations. Mass production does not thrive in such a setting because the most important factor—a large market—is not available. Goods do not move freely within Europe, cut up by tariff barriers, as they do within the boundaries of the United States with its 120,000,000 consumers.

Mass production in Europe has not made great headway—largely because of these handicaps. Manufacturers are forced to find their markets within their own boundaries and this limits production. Eliminate all trade barriers in Europe—all tariffs—and the markets of each nation—would immediately expand to include all Europe. Wages could go up and prices down under scientific volume production.

What would happen in the United States if each of the forty-eight states was shut off from the other by a tariff wall? Would our prosperity be as great if Detroit automobiles were subject to the interruption of numerous customs inspections at every state border and the tariff schedules of forty-seven different sovereignties? Suppose Pennsylvania could not ship its anthracite freely to other states, and the manufacturers of other states had to pay the increased cost of fuel due to their tariffs; suppose the iron and copper regions could not ship their ores and ingots freely, nor the forested regions their timber, nor Chicago its meat products, nor the Middle-West its grains and farm products without the hampering restrictions and increased costs due to the tariff walls in

forty-seven other states. In such a world our great industries, based on mass production and mass distribution, could not have developed and we would not enjoy the great prosperity that has come to us in recent years.

HOW EUROPE CAN BE PROSPEROUS

Yet the picture of the United States divided by tariff walls is a fair picture of the difficulties in the way of Europe's industrial development. Until her tariffs are removed or lowered, we cannot expect Europe to become really prosperous. That is not the view of one who is speculating idly about tariff theories. It has been recognized by a distinguished group of bankers, of all nations, who, in 1926, joined in signing "A Plea for the Removal of Restrictions on European Trade." This remarkable document, which was signed by J. P. Morgan, Melvin A. Traylor, Albert H. Wiggin, J. J. Mitchell, and Gates W. McGarrah for the United States has not, unfortunately, received as much consideration from the politicians of all nations as it deserved. Its importance cannot be overestimated, for it proves the contention that business men have begun to realize that protective tariffs impose a heavy handicap on the prosperity of the world. The keynote of the manifesto was as follows:

"There can be no recovery in Europe till politicians in all territories, old and new, realize that trade is not war but a process of exchange, that in time of peace our neighbors are our customers, and that their prosperity is a condition of our own well-being. If we check their dealings their power to pay their debts diminishes, and their power to purchase our goods is reduced. Restricted imports involve restricted exports, and no nation can afford to lose its export trade. Dependent as we all are upon imports and exports and upon the processes of international exchange, we cannot view without grave concern a policy which means the impoverishment of Europe."

POLITICIANS WILL NOT HELP

There is no reason to be surprised that this statement of the case has not had more immediate results. Politicians will not act until forced to. The initiative must come from business men themselves; and they are not yet fully aware of the situation. But it is their profits, which are being curtailed by existing tariff policies. Business men have done many things that they did not expect to do when they realized it was to their financial advantage to change. Mass production, for the first time in the history of the world, has made it profitable to business to pay high wages and to sell cheaply. It permits the consumer rather than the manufacturer to set selling prices. It is not expecting too much that it will bring lower tariffs when the business men of the world recognize that high tariffs are detrimental to their economic interests.

Low tariffs will come as a practical phase of the evolution of business. It is too much to expect that the question can be dealt with effectively and settled as a whole at any international conference. Such conferences may be useful in hastening the day, but they will not settle the question all at once. Nor will abstract reasoning have much to do with the result.

COMPETITION WILL LOWER TARIFF

Low tariffs will come, as low prices did, through the force of competition. Ford forced the automobile industry into mass production, not by reasoning with his rival manufacturers that his methods were best, but by underselling them—and making more profits in addition. Tariff questions will likewise

be settled not by acclamation, but by economic necessity. Big Business, which is dominating industrial life, always does, in the end, what is to its own interest. It will reverse itself on the tariff as it has on other problems, including shorter working days, higher wages, smaller profits and lower selling prices. In each of these instances present policy is the direct opposite of what it was twenty years ago. So it will be with the tariff.

As an illustration of how lower tariffs will come about, practically, let us consider the problem of the industrial rehabilitation in Europe. The nations of Europe cannot compete with the United States in manufacturing unless they adopt our methods of mass production. But mass production requires large plants and expensive machinery, as well as other capital investment. America is at the present time, the principal source of capital for European borrowers.

It is not reasonable to suppose that American bankers, interested in the continued prosperity of American industry, in which they have large investments, will long continue to loan to nations who maintain a high tariff against American products. That might be called a selfish measure. But another effect of the dependence on American capital will be to force trade agreements between the European nations themselves, as implied in the bankers' manifesto. Mass production cannot live without large markets, and capital is not going to invest in industrial enterprises that do not have an assured outlet for their surpluses.

Neither can business succeed, nor obtain capital at reasonable rate, if markets are insecure or fluctuate so widely as to make idle a great amount of machinery, building and capital, during the period of curtailed demand. Capital, therefore, will not go, at reasonable interest rates, to the manufacturers of countries whose tariff policies restrict trade.

Farmers a Force for Free Trade

Still another factor that is working for lower tariffs, in America at least, is our large farm population. Farmers have been taught to believe that high tariffs against manufactured products permit high wages to be paid, which in turn assures the farmer of a large domestic market for his products at a high price. The farmer is now wondering if the theory is sound. Once he learns the real results of mass production in raising wages and reducing prices he will see that his interest lies in the elimination of tariffs on manufactured goods which he must buy. He may also realize that his own salvation lies not in artificial restrictions and stimulants, but in applying scientific mass methods of production and distribution to farming.

In the ideal world of trade, in which there would be no tariff walls, the United States would have nothing to fear from the competition of any other nation. Then we would have applied to world production the principle of specialization that is now applied to industry within nations. America is an economic unit. No other nation possesses so many raw materials, power, resources, or specialized industries, plus an adequate system of transportation and communication.

Italy has no coal or iron, France has no copper, Germany has no wool, leather or cotton, England has little else but coal and iron. How then could any of these nations outstrip us industrially if we devote ourselves to improving our methods and extending our markets, instead of relying on the temporary and doubtful protection value of tariffs which, while they may at times serve an individual interest, can never serve the interests of the nation as a whole?

Prosperity and the Tariff

By P. C. Staples

Vice President, The Bell Telephone Company of Pennsylvania

THE layman, going about his daily affairs with an eye on surrounding conditions and an occasional ear cocked in the direction of academic debate, is faced by a bewildering economic phenomenon.

Scholastic authority, practically unanimous, admits no challenge of the proposition that the levy of a tariff does violence to every fundamental principle of trade. It is difficult to fancy a modern Bacon, conceiving another Atlantis and attaching international perfection to it, not affixing the label of free trade.

Yet—and here the layman's bewilderment comes in—his own observation appears to suggest that in this country we do violence to those same fundamental principles in the production and distribution of our goods, not only with impunity but to our apparent great advantage.

We in the United States are accustomed to admit our prosperity. Not in all sections, at all times, have we enjoyed it, to be sure. As a nation we have sometimes overreached; sometimes have been imprudent, very likely. But, by and large, generation in and generation out, we have found the pursuit of material contentment continuously less difficult.

Had the United States chosen to develop essentially as an agricultural country, bringing into full play its great gifts of acreage, soil and climate, we might, to this day, have limited our enterprise to keeping the world's market-basket full, depending in turn largely upon our neighbors to supply us with manufactured goods essential to our sustenance. Had we done so, this might still be a comfortable country in which to live, assuming perpetual peace, assuming also our neighbors' willingness always to fill their baskets with the products of our farms, and assuming further their constant resistance of the temptation to exploit their American markets.

Industrial Pioneers

But, however interesting such speculation may be, the founders of our national system chose to proceed otherwise. They had had a taste of foreign war and the dangers besetting a country unable to produce within itself the sinews of self-protection and self-support. Furthermore, their racial roots went back to the countries of Europe, where industrialism had produced its abundant advantages.

Confronted from the very beginning by these well established industrial systems abroad, which in addition to their obvious advantages were willing temporarily to "take a loss," if by so doing they might stifle the new American industrialism, the latter's road was opened up only by our first hesitant levies of import duties.

Industrial self-dependence was eventually realized. And, it is not to be overlooked, that our industrial pioneers were vouchsafed the expectation, if not the promise, that their field of trade would be protected from outside encroachment.

Not all continued to go well at home, however. The agricultural sections eventually felt what they declared to be the pinch of tariff-protected prices in the markets for manufactured goods to which they were limited. The coun-

try stood at the crossroads. Was it to continue its industrial expansion, or turn back? What was best for the nation as a whole? To the fact that it did not then change its course, and that it later won its industrial way through the difficulties of scanty capital and insufficient labor is in a large part due the literal majesty of our present industrial development.

National Tariff Policy

Bitter as have been, on occasions, the partisan and sectional differences as to our national tariff policy, there is presumably general agreement that our budding industries have flowered in but a small fraction of the time which they would have otherwise required.

Probably there is general satisfaction in the fact that the United States could now, from within, meet its practically every requirement were it called upon to stand and sustain itself in an international emergency.

Presumably, too, as we look around us as a nation and view our collective conditions of life and the promises which are held out to succeeding generations, we include among the objects of our credit that national policy which has made it possible for us to attain a living scale uninfluenced or limited by foreign standards.

To be sure, it may be that this great advantage which we of the United States have built up during the last fifty years is attributable in no small measure to our unparalleled natural resources and our apparent natural genius for organization and for mass production. That certainly is true. But, protection from the dumping on our shores of the low-wage-cost products of Europe and the East, claims its greater share of the credit for our collective prosperity.

Satisfying as is our present situation, by and large, two questions occur to the layman. He might put them this way: How much special and unfair privilege is being accorded certain favored American manufacturers? And how long can we, and should we, hold to our present tariff levels in face of present and anticipated developments abroad?

As to the so-called special privilege, there has been much political discussion, which might indicate that the necessities for legitimate protection have been exceeded in the fixing of tariffs on certain commodities, with the result that small groups have enjoyed unjustifiable benefits, at the expense of the country as a whole. Such contentions are probably inevitable so long as tariff schedules exist. They may be well founded. If they are, there is a fly in the ointment of our national prosperity, which calls for a thorough straining process. Such conditions, to whatever extent they exist, might appear to strike at the wisdom of our national tariff policy. That, however, they are but correctable misadjustments, rather than symptoms of a national fallacy, is apparently the general belief.

The second question—as to the extent to which our tariff practices require reshaping in light of more recent developments and prospects—presents far more of a puzzle.

Effects of Tariff on Prosperity

At home we observe that those once budding industries which required protection from foreign aggression have, most of them, grown to very impressive dimensions. If they are now asked to stand alone, without benefit of tariff, how will the country's prosperity be affected?

There is a manufacturer of my acquaintance whose output, widely used in pursuits of peace and indispensable in war, is of large dimensions. He has realized his very favorable position through thirty years of unstinted cap-

ital outlays, progressive methods of manufacture and distribution, and the benefit of a tariff which has, up to this time, protected his American market against the inroads of foreign manufacturers.

He is, therefore, a protectionist as a matter of principle, or of self-interest, or of selfish interest, according to the eyes through which he is appraised. Presumably he and his fellow stockholders and his thousands of employees, who share the prosperity of the business, would challenge any odious reference to their industry.

It so happens, however, that in two European countries the post-war pinch has beaten down labor costs to the point where identical goods there manufactured can be laid down at American ports at a figure which my acquaintance's company cannot match.

He contends that if he and his American competitors are not allowed greater tariff protection, he and they must substantially reduce production, at least to the extent of the foreign influx; or reduce costs, of which labor is a substantial part; or forego profit, or even "run into red," for an indefinite period. Altogether, the prospect as he paints it is not alluring.

I presume that he—and there are not a few sitting in the same boat—has no notion of throwing up the sponge. It is a safe prediction he will win through, somehow. But these circumstances suggest that the proposition of asking our tariff-protected industries—all of them, regardless—now and henceforth to fight it out without reasonable benefit of tariff is hardly in tune with our concept of collective prosperity which found expression at both Kansas City and Houston.

Looking a bit further into the future, the problem complicates, fast and surely. Already Europe is taking a leaf out of America's book. Tariff walls are up, and trade wars are on with a vengeance. Our foreign salesman is not everywhere so courted as he once was. Each westbound ship brings its group of observers, bent on studying not only our industrial methods, but our protective methods and measures. What America can do, Europe hopes it may at least copy to advantage. Meanwhile, we on this side of the ocean, bend our energies unceasingly to mass production and to the winning of world markets for our surplus goods.

Then too, our debtor nations are reminded that there are sizable accounts to be settled. And to their contention that our tariff barriers prevent payment in goods, the only currency which they can now muster, we observe that it hardly seems good sense for us to scrap our own industries in order that they may discharge these obligations.

And, so, the rest of the world regards us from across the waters—or professes so to do—as a selfish lot of industrial barbarians, smug in our high wages and creature comforts, ignorant of our international duty, a people recklessly riding its good fortune and courting inevitable retaliations of one vague sort or another. All of which, coming from countries which are scrambling to get their own tariff walls high, and who would presumably be doing so were America's position on the map an ocean waste, rather strengthens our notion that theory and practice are not one and the same, after all.

FUTURE PROSPERITY

Time will, as usual, tell us many things. It is possible that the people of this country will one day agree that what we have so long worked for and so brilliantly accomplished is but false paradise and sinful exploitation of our granted advantages. If and when we do it will be a large and bitter dose, bitterest to those who win their way

from day to day in our fields and workshops.

Scholastic concept may triumph in the end. But, in the meantime, it would seem best to conduct our tariff-reduction experiments with great caution. Europe's continued friendship, political and commercial, is no less necessary in the future than in the past. But it would seem that before we abandon our trade traditions and adopt hers, it might be well to wait until she has completely recovered and again settled down.

The increasing consciousness and emphasis on individualism in this country very much complicates all speculation as to our ultimate trade and tariff courses. There was perhaps once a time when our whole people might have subscribed to the proposition of an industrial development wherein America would concentrate on those elements of production in which it excelled, depending on other nations to supply us with those goods in the production of which they in turn were most effective, and counting on the operation of the law of comparative advantage to work its universal benefits. At that time, provided it once existed, relatively small harm would have resulted, and only a few would have suffered. A spirit of nationalism might have supported such a course.

But no such spirit now flourishes among us, economically speaking. Manufacturer, miner, farmer—each will call for evidence more compelling than theoretical reasoning as to why he should close up shop and turn his trade lists over to the European, just for the sake of orthodoxy. Although the precise formula of our national prosperity may be somewhat unintelligible to the man on the street or on the country road, he has a pretty good working idea of cause and effect. To him the fruits of American life appear not to be accidental. He has put the protection of his industry in the scales of his prosperity; and it will require tall talking to persuade him to take it out and start over again.

Popular Tariff Fallacies

By Herbert F. Fraser
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THERE is no subject upon which the opinions of the average man or woman and those of the trained economist are so far apart as upon the question of the tariff. Since the days of Adam Smith the overwhelming number of economists have been in favor of free trade as the sound economic policy for states and nations. The protection of infant industries in new or undeveloped countries has received the temporary support of many economists, but always on the understanding that protection was not to be a permanent policy and that reductions in the rates would take place as the infant industry overcame the initial handicap. Friedrich List would not today be regarded as a good protectionist; on the contrary he would be accused of being at heart a free trader. But, in all countries, where the policy of protection has been advocated and defended for the fostering of rising manufactures, great difficulty has been experienced in removing duties or even lowering them.

The policy of protection has created, within the country, powerful interests that are opposed to reductions; capitalists who have invested in those industries, and workers who have learned the trade are united in support of the policy from perfectly good reasons of self interest. Other capitalists sympathize with them, and other workers sympathize with their fellows in the protected industries, and so the policy in time comes to have general support. The protective system is rationalized, and new arguments are brought forward in its defense. People are told that the tariff creates an additional home market, that it makes wages high and keeps them high, that it gives employment to the workers within the country; in short, that the prosperity of the country is dependent upon the maintenance of the duties, and that increased prosperity can only come by a raising of the duties.

In the nineteenth century the greatest political force of the time, the spirit of nationalism, was linked up with the policy; the appeal is not only to reason, but to the deepest of prejudices and the strongest of emotions—patriotism. A century ago Henry Clay called the protectionist policy "the American System," and politicians still speak of the "American system of protection." To patronize the foreigner is unpatriotic; good Americans should spend their money in this country and by keeping it at home give employment to the American working man; we should not buy cheap foreign goods but patronize our own manufacturers who very generously pay high wages, so that our workers can maintain the American standard of living. Since as a people we are agreed upon this, we must maintain a high tariff policy. If we permit a flood of foreign imports, our industries will close down, our workers will walk the streets in idleness, and we shall have upon our hands a permanent condition of depression. It is all very well to be generous to the foreigner, but we must first be just to ourselves, and by so doing we shall in the end be more valuable as a customer to the foreigner, for if we keep our people employed and earning the good American wages, they will then have the wherewithal to buy the foreign goods. Thus in the end under a pro-

tective system we shall buy more goods than we could possibly do under free trade. Thus the popular argument runs, a source of amusement and often of irritation to the economist.

Basic Principles

When the economist is faced with a number of fallacious and contradictory ideas, such as I have just given, his only recourse is to fall back upon first principles. All trade is essentially an exchange of goods and services. People give goods in order that they may get other goods. Today this process is carried on by means of money, but money, in the last analysis, is only the mechanism of exchange. To get and consume goods is the end we have in view; production and sale is the means to this end. The value of the goods and services given must be equal to that of those received. People give goods that they can produce easily for goods which they cannot produce at all, or only at greater cost. Specialization requires exchange, and both parties to the trade benefit, though one may benefit more than the other. The essence of the benefit lies not in any difference in sales and purchases calculated in money, but in the greater importance to each party concerned of the goods received than of those given.

These principles are common to all trade; they apply to the trade of Smith and Jones, of Hicksville and New York, of Maine and Florida, of England and Brazil. And it does not make a bit of difference to the principles involved if the trade is polyangular, if England sells to Brazil, Brazil to the United States, and the last in turn to England, etc. The principle that the value of goods and services given must equal those received, commonly known in international trade as the "equation of indebtedness," means that in the end a nation establishes, with all the other nations, a true trade balance. It does not mean that a nation cannot buy more from any one nation than it sells to it. If it establishes credits in other countries it can use them in payment of debts in a third country. Thus we have for a long time paid our debts in Oriental countries in pounds sterling.

Nor is the principle to be interpreted as meaning that the value of merchandise exports must equal exactly the value of merchandise imports. There are other means of earning foreign money besides exporting; investment in foreign countries brings interest; tourists' services have to be paid for; ocean freights, banking and brokerage services, immigrants' remittances; all these "invisibles" must be settled for, and a debtor nation that owes for the items will in the end find itself with an excess of exports over imports to redress the balance. On the other hand a mature creditor nation will find itself with an excess of imports. The "equation of indebtedness" is an extremely valuable principle in international trade, and is important in keeping our thinking upon the subject straight. Once it is grasped the mercantilistic notion of a "favorable" or "unfavorable" trade balance loses point in the tariff controversy. Making allowance for the invisible items it is broadly speaking true that exports pay for imports, and the easiest way to produce an expansion of exports is to permit an increase of imports.

The Case for Free Trade

The case for free trade is inherent in the principles of trade which we have outlined above. It is based upon the economies of an international division of labor. If each nation will concentrate upon the production of those things in which it has the greatest comparative advantage, the total of the world's production will be increased,

and out of the enlarged stock there will be a greater share for all. Anyone who concedes the advantages of geographical specialization will be forced to admit the desirability of free exchange, and if the question is one of economics merely, the burden of proof rests with those who assert that there is gain from the contrary policy of protection.

Their best case was the infant industry argument, which conceded the superiority of free trade after the protected nation had been brought to the same industrial level as its chief competitors. Unlike France and Germany, protection in the United States has always been of peculiar advantage to American manufacturers, and the farming population has always shown a tendency to resist the higher prices which the policy produced for a considerable range of manufactured articles. To overcome such resistance the home-market argument was invented.

The Home-market Fallacy

In his notable speech of 1824, Henry Clay declared:

> Our agricultural is our greatest interest. It ought ever to be predominant. All others should bend to it. . . . We must speedily adopt a genuine American policy. Still cherishing the foreign market, let us create also a home market.

This could easily be done by the protective tariff. Shut out European manufactured goods and make them over here, so the argument ran, and we should have a greater demand for the produce of our farms. The creation of this additional market would be a great boon for our agricultural interests. The fallacy lies in the word *additional.* The argument is plausible only when the exchange nature of foreign trade is ignored, as was the case in the popular argument of a century ago.

By levying heavy protective duties on textiles, we shut out a large supply coming from England, and were able to manufacture them ourselves in New England, causing a working population to spring up there who furnished a demand for our farm produce. The effect of this was something different, however, than what Clay had in mind. The real market is to be found in the exchange of cottons or woolens for food. X That market existed when textiles were imported and food exported in payment. By shutting out textiles we limited our ability to export, and the home market gained simply replaced the foreign market lost, to the disadvantage of our farmers. It was to the disadvantage of our farmers for there was no increased demand for farm produce, while the price of textiles was raised to the farmer, and thus the terms of the exchange made more unfavorable to him.

The home-market argument is still much used, and has been made more attractive by an admixture of Mercantilism. A former New England senator and a cotton manufacturer went before the Finance Committee of the Senate and declared in 1922:

> If imported goods are kept out the money that would go abroad would remain at home to the benefit of the American manufacturers and farmers generally.

Now the money of international trade is the bill of exchange commonly called a draft, and the money which would actually stay at home would be drafts. If we exclude English cottons, we certainly do not have to send a draft in payment. However, it is quite possible that such a draft would be drawn against Kansas wheat, and the same policy which checks the importation of cottons from Lancashire, will check the exportation of wheat from Kansas. With these ideas in mind we can put the ex-senator's argument into the realistic terms of exchange and it runs something like this:

If the farmer deals with the Englishman he will get four yards of cloth for a bushel of wheat, but if he is compelled to deal with us we shall be pleased to give him three yards, and that will be to the benefit of American farmers and manufacturers generally.

A special form of this argument had to do with the development of industrial towns and cities. The farmers near to growing towns benefited, but they did so not as farmers but as landowners. Very few, however, became the lucky holders of urban sites; the great mass of farmers did not gain but lost, because the terms of exchange became for them more adverse.

Make Two Profits and Save the Freight

A curious variant of the home-market fallacy is the "two profits" argument. Home trade is more profitable to a country, because it leads to two profits, thus making possible on the part of the business men twice the savings that would result from foreign trade. A makes an article and sells it to B in the same country and the latter sells it to the ultimate consumer; there are two transactions within the country and both A and B make a profit. Here again the exchange nature of international trade is wholly neglected. Let us suppose that the tariff has compelled B to deal with A. What was the situation before the tariff was put into effect? B bought the article from C in another country, and D in that country bought something from A or someone else in B's country to make the exchange complete, thus making imports pay for exports. In either case there will be two profits, and without protection there will be a greater amount of goods involved for the same money, to the advantage of the ultimate consumer.

Somewhat akin to this grotesque "two profits" argument is the statement falsely attributed to Abraham Lincoln, a statement, by the way, which appeared in a political leaflet during the recent presidential campaign, and still frequently to be seen in the newspapers. Lincoln is made to say:

> I do not know much about tariff, but I do know this, if we buy steel rails from England, we get the rails but they get our money; while if we buy rails at home, we have both the rails and the money.

The statement is plausible because the exchange nature of the trade is obscured by the use of the word money. Substitute the word "cotton" for "money" and the plausibility is lost. A full analysis of the statement would involve a consideration of costs, real labor and capital costs, but it is not necessary for our purpose to go so far.

It is sometimes argued that the home market is better than the foreign market because we save the freight. But why should we be anxious to save the freight? If the foreigner enters our market it is because he can produce so cheaply that the cost of transportation added to the cost of the article still leaves the price below that at which we can produce the same article. Why should we be penny wise and pound foolish? Paraphrasing Adam Smith, we could grow oranges in Pennsylvania and save the freight from California,—yes, by erecting and heating hot houses!

The Wages Fallacy

With the working man today the most popular argument in favor of the tariff is the wages argument. The American scale of wages is higher than that of foreign countries; therefore, cheap foreign goods must be excluded, or else under competition the scale of our wages will be forced down, to the detriment of our working class. This argument assumes that high wages mean high production costs, but obvi-

ously this is not true in all cases or we should not be able to export any goods. In agriculture and many lines of manufacture we have always been able to export, while paying higher wages than those prevailing in similar lines in Europe. The explanation is simple; the American worker is more efficient than the European in those industries in which we undersell the European in his own country; and high wages are to be found in those trades where we enjoy comparative advantage, and where the marginal productivity is high.

American wages have always been higher than those of the European countries. This was true before we had a high tariff system at all. It was then argued that we required protection to give our manufactures a start. We had a vast country with an abundance of natural resources and a relative scarcity of labor; cheap and fertile land made agriculture profitable and permitted the paying of good wages on the farm. To get the requisite labor supply manufacturers had to compete with agriculture, and protection was demanded so that they might be permitted to pay the high American standard of wages.

Real wages in Great Britain have always been higher than on the continent of Europe. In 1879, when Germany abandoned the policy of free trade in favor of protection, in addition to the decisive war-necessity argument, it was argued that the German workman had to be protected against the higher paid, more skilled, and more productive English workman. It is a curious fact that at the very time it was contended in our Congress that the American worker had to be protected against the lower paid British worker, it was maintained just as earnestly in the Reichstag that the German worker must be protected against the higher paid British worker. Wages in free-trade England have always been higher than those in protectionist Germany and France, and that is why the English worker is opposed today to an all inclusive tariff system, and very sceptical about the virtues of safeguarding.

The wages argument was the logical outcome of the conditions which arose in those industries which, though well adapted to the country, were at a disadvantage compared with other industries, in which productivity was higher, and in which, under a régime of freedom, wages would be higher. It was seen that in any one of those industries the removal of protection would cause wages and profits to be forced down. The workers would try to find more productive work rather than accept lower wages, and capital would cease to flow into a decaying enterprise. This is the case where there is point and meaning to the argument that protection is required to give employment to labor and to keep wages high.

The argument is applicable only to those protected industries which are not properly suited to this country. Workmen who demand the American standard of high wages can be employed in those industries only through the favor of protection. It is, therefore, quite true to say that so long as our workmen are employed in such industries their high wages are dependent upon protection. But this is not to say that our high wages in general are dependent upon protection or are the result of the protective policy. Furthermore, it is wholly untrue to say that our wages in general are raised by protection; on the contrary, they are lowered when our workers purchase protected articles which could be bought more cheaply under free trade. In this discussion we are, of course, considering real wages, the amount of goods and services which a wage earner can get in exchange for his labor.

Why then are working men, particularly union men and their leaders, such staunch protectionists as a rule? The reason is not hard to find. The economist says that in the long run the worker will be better off under free trade. But the worker is not a long run but a short run economist, for the obvious reason that he must eat and live in the short run. He will not consider what would be best for himself and the country ten years from now, while he is under the necessity of seeing that he and his family get their living this month and next. His attitude with regard to free trade is like his attitude toward new machinery and new processes of a labor saving kind. He may impede economic progress, but we ought at least to understand him, and in a country without unemployment insurance we ought even to sympathize with him.

THE EMPLOYMENT FALLACY

It is clear that a country once embarked upon a protective policy cannot return to free trade without causing considerable disturbance to vested interests, and from this it follows that the protective policy creates supporters with the passing of time, and if the policy is extended far enough, it is well nigh impossible to get rid of it. Labor and capital cannot shift readily and so the vested interests line up in opposition to a reduction of the duties, and in their opposition they gain the support of those who think that our workers will be thrown out of employment by a flood of foreign imports. Those in other industries than the one threatened with a tariff reduction join in the opposition, on the theory that if employees are out of work in their own trade, they will compete for the remaining jobs, to the detriment of wage earners in general. Furthermore, to those who are unacquainted with economic theory and who do not understand the exchange nature of all trade, it seems axiomatic that the exclusion of foreign goods means more work for the working men in the protected country.

Make-work fallacies are among the most common and the most plausible of errors, and that is why the common man will frequently make use of the absurd argument that work can be increased by placing restrictions upon trade which have the effect of reducing its volume. That you can reduce the volume of trade and thereby increase the amount of employment is one of those curious contradictions which so frequently result from thinking a subject only half through. It is clear that if imported articles are excluded they will have to be made at home, and it seems obvious to the average man that this adds to the demand for labor. The error involved is the same as that in the home market argument. There is no additional demand for labor in the long run. Exclude imports and you reduce exports of equal value. The gain of employment in the home industries will be offset by the loss of employment in the export industries. An increase of employment, therefore, is not likely to result from a diminution of imports.

British students of the unemployment problem have always supported this contention by an appeal to statistics, showing that unemployment has been lightest in years when competing imports have been largest in volume, and that unemployment has been more severe in years when competing imports have been smaller in volume. Of course, the lower volume of imports may be due to generally poorer trade, and *vice versa*, the heavier imports may be due to generally better trade, which, in turn, produce more and less unemployment. Professor Pigou

ends this part of his study of unemployment with the conclusion that:

> The exclusion of competing imports will do it (*i.e.*, lessen unemployment) or will fail to do it, according as it turns out that goods, which business men believe they could not obtain by direct manufacture as cheaply as by exchange with the foreigner, can or cannot, in fact, be obtained more cheaply by this process.

So stated, the argument becomes part of the infant industry argument, and the contention is that in the end employment will increase when the point is reached where the goods formerly imported are manufactured more cheaply at home. It is needless to add that with countries as highly industrialized as the United States and Great Britain there is very little force to the argument.

Tariff Legislation and Business Depressions; Cost of Production

It is devoutly believed by many business men that the panic of 1893 resulted from the lowering of the tariff rates. Says the Republican Campaign Text-Book, 1928:

> As a result of the Democratic victory in 1892 the United States experienced the worst panic of its history, with the possible exception of the panic of 1873. Industry throughout the country was completely paralyzed. . . . Before the close of this panic, brought on by the Democratic tariff policy, practically all of our industrial plants were closed, 50 per cent of our railroads and 30 per cent of our national banks were in the hands of receivers.

One would hardly learn from this paragraph that the panic occurred in the spring and early summer of 1893, while the Wilson-Gorman Act did not become law until the end of August 1894, and, furthermore, that act carried a general level of duties of 39.9 per cent. So far from being a free-trade measure, the act was a highly protectionist measure, more inclusive and with a higher average of rates than those prevailing in France and Germany. If, however, the panic of 1893 was the result of the reduction of the tariff in 1894, what are we to say of the panics of 1873 and 1907, when we were under high protective tariffs and Republican administrations?

We have heard much of late of a tariff to equalize the cost of production. Such a tariff, we are told, is a scientific solution of the problem. If the foreigner can produce an article more cheaply than our own people we should wipe out his advantage by means of the tariff. It follows logically that we should give the highest amount of protection to those industries in which we can use our labor and capital to least advantage. We should by the application of this principle deny to ourselves and the other trading nations all the comparative advantage that may result from international trade. Furthermore, whose costs are we going to take? In all countries there are low cost firms, and there are high cost, marginal firms, who are just able to stay in the business. The protected manufacturer will tell you that the way to proceed is to take the costs of the cheapest producer in the foreign field and compare them with the costs of the marginal firm among ourselves, then set the tariff rate so as to wipe out this difference. That is a sure way to give practically all the business to the American producers.

Tariffs and Prices

To listen to popular tariff arguments it would seem an easy matter to prove anything with regard to the effect of customs duties upon prices. By choosing the proper commodities it is possible to prove in some particular instance that the tariff does not raise the price at all, that it raises the price by

an amount less than the duty imposed, that it raises the price by the same amount as the duty, that it raises the price by an amount greater than the duty. Now the interesting thing is that all these possibilities are true, depending upon the commodities chosen. Where the commodity is produced in such abundance within the country that there is a large exportable surplus, the levying of a tariff duty will have practically no effect upon the price. This is the case with our large grain crops, where the protection given is purely nominal. When things are produced under increasing, constant, or decreasing costs, the imposition of a duty will raise the price by a less, equal, or greater amount than the duty. We cannot here argue the point, but students of the problem know that these effects upon prices occur, and since that is the case we find here a veritable nest of popular fallacies and astonishing generalizations.

Choose a commodity like corn or wheat on which there is nominal protection, and you will have no difficulty in proving that the price has fallen since the imposition of the tariff duties, and then conclude from this that the tariff will not raise prices. Choose another commodity like shoes, which are on the free list, where the conditions of the trade have been such recently as to cause prices to rise somewhat, and then you can argue that the tariff has no effect upon prices, for the protected article has fallen in price while the unprotected article has risen. Or go back in history to the high prices prevailing during the Civil War; look up prices quoted in Greenback dollars, and then contrast them with later prices, as was done during the tariff debate in 1890, and you would have no difficulty proving that prices had fallen, though the tariff protection given was very high, and from this you may conclude that the tariff had so stimulated domestic production that competition among our producers was such as to lower prices. From this it follows that the way to reduce prices in the long run is to give high protection now, develop home production, and thus free yourself from foreign extortion.

Post hoc fallacies of all sorts have been developed along these lines, and we have no reason to believe that we have seen the end of them, for, in a democracy, this complicated and difficult field of economic study must be presented by untrained men to uncritical audiences, to the great enlightenment of the "phantom public."

The Case for a Flexible Tariff

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A COMMITTEE of Congress has presented two reports, recommending respectively that the "flexible provisions of the tariff act of 1922, particularly section 315, be repealed," and that they be given further trial. Neither report suggests changes in the flexible provisions if continued.

It is the purpose of this article to restate briefly the case for a flexible tariff, and to recall the chief features of the existing system. These features are all unessential. Each and every one might be changed and the flexible principle be maintained on a different basis and with different machinery. This article does not discuss the operation of the present flexible system.

A flexible tariff provision may be defined as one which creates machinery by which the tariff may be changed piecemeal. Despite an occasional exception, it is established that the present legislative machinery can not revise the tariff in parts. It must ordinarily rebuild the whole structure or leave its most trivial detail unaltered. It cannot even restore the *status quo ante* when technicalities compel the Court of Customs Appeals to render decisions which introduce anomalies into the rates. A flexible tariff, therefore, is one in which the determination of the rates is left to some executive or administrative authority, without the intervention of the Congress.[1]

Evolution Versus Revisions

The argument for some flexible tariff provision rests first on the advantage of continuous adjustment and evolution of the tariff in place of sporadic recastings. That this change would be a great boon to industry and commerce need not be elaborated. The Platform of American Industry for 1928[2] states:

> We know that a general congressional revision of the tariff, because of its accompanying agitation, develops long periods of uncertainty profoundly affecting employment, investment, the establishment of new enterprise and the successful conduct of every form of business. But a continuing revision of our tariff schedules including the free list to meet changing economic conditions, in the light of accurately

[1] Congress might retain a veto power. Foreign countries offer many precedents for making the decision of some administrative body immediately effective, to remain in force unless either house of the legislature passes a resolution to the contrary within a given time.

A provision by which some administrative authority would recommend rates to be passed in the ordinary legislative manner (apparently contemplated by some members of the congressional committee) would have little chance of operating flexibly, unless the law provided machinery by which the items should come to a vote automatically, without the possibility of amendments and riders which would reopen the whole tariff question. Even then, unless Congress had accepted the principle upon which the tariff was being adjusted, and unless the administrative body commanded the confidence of Congress, and unless a given bill aroused no great sectional opposition, and unless it had enough political importance behind it to operate the machinery of an overcrowded legislature, it is by no means certain that the bill would go through. In other words, if some outside authority were privileged to appear and take a poll of Congress, the matter would be certain to receive the attention of Congress, but not otherwise.

[2] As adopted on May 14 at the meeting of the full platform committee, brought together under the auspices of the National Association of Manufacturers.

ascertained facts, is essential to the proper conduct of international and domestic relations.

An independent, non-partisan, semi-judicial Tariff Commission presents the only practical alternative to frequent congressional revision, with all its disturbing circumstances.

The argument for some flexible tariff provision rests, secondly, on the advantage of leaving Congress free from the increasingly complex business of tariff making; and thirdly, upon the inability of an overworked political assembly to formulate a proper tariff.

Crowding the Legislative Calendar

Almost every tariff, in the United States and elsewhere, is longer, more detailed, and more complicated than its predecessor. The dutiable lists of the tariffs of 1890, 1897, 1909 and 1922 cover respectively 36, 43, 60 and 64 pages of the Statutes at Large. The pages in 1890 had wider margins, and the tariff of 1922 is twice as long as that of 1890. Yet the tariff of 1922 includes by general provisions some 700 products which were more specifically described either in 1909 or 1913. The free list and miscellaneous provisions added 15 pages in 1890; in 1922, 26 pages, not including the consolidated administrative code of 52 pages. Not only are new products invented, but older products are defined in greater detail, new and more technical classifications are elaborated, more complicated rates are devised.

The legislative steam roller cannot prevent a revision of the tariff from keeping industry and commerce in suspense, and from crowding out other legislative business, for undue and increasing periods. The tariff act of 1890 was enacted in less than ten months from the date of the appointment of the Committee on Ways and Means, and in five and one-half months from the reporting of the bill to the House. In 1920 a world-wide depression set in, and manufacturers felt more acutely the competition of the decreased imports. The party which came to power on March 4, 1921, undertook to give some relief by revising the tariff. It had already held hearings and had passed an agricultural bill which had been vetoed, yet not until May 27 could it pass the emergency tariff, relating to less than forty agricultural products, with compensatory duties for manufacturers of wool and long-staple cottons. A further sixteen months elapsed before Congress was able to enact the tariff of September 21, 1922—long after industry had weathered the worst of the storm.[3]

Encyclopedic Knowledge Needed for Tariff Revision

Congress does not possess, and not even by taking two years for a tariff revision can it acquire, the knowledge necessary for revising the tariff in accordance with any given principle, such as that of a competitive tariff or a tariff which equalizes costs at home and abroad. The data submitted by the Tariff Commission for the revision of 1922, in their most compact form, the Summary of Tariff Information, covered 1,490 pages of facts and 135 pages of index, with a supplementary volume of statistics of over 1,000 pages. By mastering an encyclopedia of 2,500 pages, a congressman can acquire a primer acquaintance with the more essential facts upon which tariff adjustments are usually based. It is no reflection on congressmen to say that

[3] "When we assumed direction of the government in 1921 (March 4), there were five to six million unemployed upon our streets. . . . Within a year we restored these 5,000,000 workers to employment."—Herbert Hoover, at Newark, N. J., Sept. 17, 1928. Within a year means six and one-half months before the passage of the tariff act of 1922.

they have neither the time nor the inclination for even the primary facts.[4]

The members of the committees and sub-committees charged with preparing the tariff bill wrestled with the facts and conflicting allegations concerning some four or five thousand articles specified in the tariff act and further thousands covered by general language. The articles covered by the phrases "all other" or "not elsewhere specified" are sometimes more important than those named and require as much consideration. Rates must be considered for lactarene, lame, lampblack, lancewood deals, lap-welded iron flues, laudanum, laurel root, lava tips for burners, lead compounds n.s.p.f., leaded zinc oxides, leuco-compounds, levulose, lignum-vitæ logs, liquid anhydrous ammonia, litharge, lithopone, London purple, loom harness, lupines, and lupulin—to mention a few of the 160 dutiable items indexed under the letter "l" alone.

It must be decided, for instance—selecting more or less at random one illustration for each tariff schedule—whether maple sugar and maple syrup should pay the same rate per pound; whether the proper ratio in the duties on shelled and unshelled almonds is 2 to 1 or 3½ to 1; whether any significant competitive factor is involved in packing or mixing together tobaccos grown in two different countries; whether halibut, salmon, mackerel, and swordfish are the only varieties of fresh fish which should be dutiable at 2 cents a pound, and whether the duty on them should be twice as high as that on other fish; whether wool should be dutiable on its weight as imported in the grease, or on its "clean content" after scouring; whether, if rattan and cocoa-fiber matting are dutiable at 8 cents per square *yard*, similar mats should be dutiable at 6 cents per square *foot;* whether additional cost of labor and materials for staining or creosoting bamboo screens justifies a duty higher by 10 per cent *ad valorem* than the duty on plain bamboo screens; whether ethyl methyl ketone should be separated from ethyl alcohol for non-beverage purposes; whether the rate on ferrosilicon should change from 2 cents to 3 cents per pound of silicon when the silicon content passes from 59.9 to 60 per cent, or at some other point; whether, and under what considerations, American products should be admitted free of duty if returned to this country; whether a retaliatory provision should be included to penalize countries which exclude from entry imports of spirits, etc., from the United States in containers of certain sizes, and how the provision should be framed; whether a woolen blanket with one initial embroidered on the corner should be dutiable as a woolen blanket or as a piece of embroidery; whether a fair and reasonable scale of duties is afforded by dividing blankets into four classes as they are valued respectively at not more than 50 cents, $1.00 or $1.50, or more than $1.50 per pound, the four classes being dutiable respectively at

18	cents a pound plus	30	per cent *ad valorem*
27	" " " "	32½	" " " "
30	" " " "	35	" " " "
37	" " " "	40	" " " " ;

whether thrown silk—singles, tram, organzine, or more advanced—should be dutiable at one, two, three, or four different rates; whether plaques, pill tiles, toys, charms, vases, statuettes, mugs, steins, lamps, and all other articles composed of china, porcelain, and

[4] The congressmen had available also, before the tariff was enacted, some thousands of pages of commodity surveys and other information presented by the Tariff Commission, and nearly 10,000 pages of hearings, not to mention briefs by interested parties and other sources of information and opinions.

other vitrified wares should, if plain white or plain brown and not decorated, be given a lower rate of duty if they contain 25 per cent of calcined bone; whether printed, dyed, colored, and woven-figured cotton cloths should pay an additional duty (1) when not less than 40 per cent of the cloth is printed, dyed, or colored with vat dyes, (2) when woven with eight or more harnesses, (3) when woven with Jacquard, lappet, or swivel attachments, (4) when woven with drop boxes, and whether the additional duties should be at the same or at different rates; whether, and to what extent, paper should have special rates if printed, lithographed, embossed, gummed, reinforced, super-calendered, albumenized, sensitized, or prepared with glycerin, or if covered with metal solutions, gelatin, linseed oil cement, flock, paraffin, or barata, or otherwise coated, or if decorated with a design made by a paper machine without attachments, or otherwise decorated.

Members of Congress, and especially the committee members, are pressed with demands of the interested parties. They take these demands with a few grains of salt, but lack of time and of technical knowledge prevent critical analysis of them. At times the producers, demanding protection for some raw material, lock horns with the manufacturers who use it and who demand that it remain free; at other times, producers and manufacturers combine to ask rates mutually satisfactory on raw materials and finished products; except in regard to contested raw materials, the consumers are not well represented, and the cases for higher and for lower rates are seldom presented with any approach to equal fullness, insistence, and persuasiveness. The farmers and the press, however, have received consideration as consumers; other classes, broadly speaking, have not.

Political Attitude of Congress

Assuming that the committee has mastered the details and has done as good a job as is humanly possible, the bill does not necessarily commend itself to Congress. Accepting as he usually does the idea that his constituents should control his vote, the congressman is not greatly interested in an accurate adjustment of tariff rates to any principle or standard, but in obtaining rates that will satisfy the most vocal and influential of his constituency. The constituency is totally indifferent to any principle or standard; it wants relief, or it wants further protection. Hence the failure of Senator Aldrich and his friends on the Senate Finance Committee in 1897 to obtain assent to the rates which they proposed as adequately protective but as sufficiently moderate so as not to provoke a radical change if the opposing party should come to power. While the congressional leaders exercise some influence in the direction of moderation and stability of policy, the result of a legislative revision of the tariff is necessarily a question of political pressure by various interests, of sectional and class feeling, of log-rolling, and of party maneuvers. A legislative tariff must necessarily be a political tariff, and political tariffs present the constant danger of too drastic changes of rates. Industry will adjust itself in time to any tariff; the one great evil is found in changes too frequent, too numerous, and too drastic. In 1909 agricultural machinery was dutiable at 45 per cent *ad valorem*, in 1913 it was exempt from duty; one rate or the other was wide of the mark.

It will be said that exactly because our tariffs have been political rather than adjusted carefully to some principle or standards, Congress will never entrust the making of rates to any

other agency. The same thing was said of the making of railroad rates, which had been a legislative function—to make a bull—for generations before railroads were invented. The same thing was said about the Civil Service Commission—politicians would never abandon the free choice of appointees. However, as one of the justices has pointed out, the Supreme Court has been able to keep the respect and admiration of the public, but only because it has succeeded from time to time in having its jurisdiction so curtailed that its task remains within human capacity. If Congress has been less successful in curtailing its jurisdiction, it has none the less progressively delegated its powers as it has found their exercise becoming too complicated. Already in the present law it has shared to some extent the power to make tariff rates.

THE PRESENT FLEXIBLE TARIFF LAW

The present flexible tariff provision is based on the comparison of costs of production at home and abroad. It allows, under a ruling of the Attorney General, the substitution, to a degree not yet determined, of invoice prices for foreign costs. The assumption is that invoice prices will at least equal if not exceed foreign costs. The law requires also the consideration, in so far as is practicable, of "other advantages and disadvantages in competition," including, as now held, cost of transportation to a point where competition is joined.

Under the present law the differences in costs are found by a bipartisan commission of six members who either agree or disagree on the many technical questions which arise in each case—the selection of the principal competing country, the areas at home and abroad to be surveyed, the number of farmers or factories to be visited and their distribution, the period of time to be covered by the cost statistics, the selection of comparable samples, the allowances for grades, the point of chief competition, the allocation of charges to joint products, the consideration to be given to export duties, the treatment of rent and interest in the accounts, the composition of the weighted averages, etc., etc. Both disagreements on these technical points, and agreements to submit alternative figures based on alternative solutions of the difficulties, lead to the sending of reports to the President, which at times indicate several more or less markedly different results. Among the various rates indicated by the cost figures, the President may take his choice, unless they all lie outside of the maximum change allowed by law. Occasionally the figures in a given case may point to changes in opposite directions.

The present law entrusts to the President the final decision for or against a change in a tariff rate and the decision in certain cases between several rates indicated in the report of the Tariff Commission. That is, the tariff is revised by an overworked party leader, whose desire to give the act a judicial enforcement may or may not long survive in an atmosphere of practical politics. The rule of the Government of India that after the Tariff Board has reported no representations from the interested parties will be received has no counterpart here. Until the President issues his proclamation the interested parties, publicly and privately and through their representatives, do not cease to urge him to give effect to the maximum change indicated by the figures of the Tariff Commission or to ignore its findings, as the case may be. Judging by the press reports of the more public of these deputations to the President, their argu-

ments have no bearing on the difference in cost of production at home and abroad.

Under the present law a proclamation may establish a duty for a new classification, not coextensive with any in the tariff act; but it may not change a specific to an *ad valorem* duty or vice versa.

The official interpretation of the present law allows no change in the rate upon any product not actually imported or not in actual competition with an American product. That is, if a given article, or a given grade or variety, is not produced in the United States in commercial quantities, the duty thereon can not be reduced; and if a given article or grade or variety is not actually entering the United States, because the duty is prohibitive or for any other reason, the rate of duty cannot be changed under the flexible tariff.

Under the present law, aside from the limitation just mentioned, any rate may be reduced by not more than 50 per cent of the duty; and the rate on any article may be increased except (a) articles on the free list, (b) coal tar products (paragraphs 27 and 28 of the tariff act) already subject to American valuation, and (c) eight classifications for which Congress has prescribed specific duties but has added *ad valorem maxima*—*i.e.*, some such expression as "In no case shall the duty or duties imposed upon cotton cloth in paragraphs 903, or 903 and 906, exceed 45 per centum *ad valorem*." For articles dutiable at specific rates the increase of duty is limited to 50 per cent of the duty. For articles dutiable *ad valorem* or at compound rates, the rate may be increased by 50 per cent of the duty, or a greater increase may be made by changing the basis of valuation to "American valuation" with no increase and perhaps a decrease in the nominal rate of duty. Thus the duty on taximeters was increased by more than 50 per cent of the duty when the rate was changed from $3.00 each plus 45 per cent *ad valorem* (foreign valuation) to $3.00 each plus 27.1 per cent (American valuation). As the whole change was put on the *ad valorem* part of the compound duty, 27.1 per cent on American valuation is seen to exceed 67½ per cent on the foreign valuation by at least $1.50 per meter.

Provisions Concerning Unfair Competition and Discriminations

The "flexible tariff" is sometimes taken to include not only section 315 but sections 316 and 317 as well. Section 316 deals with unfair competition between imports and domestic products and authorizes the President to exclude products competing unfairly or to impose upon them additional duties "not exceeding 50 nor less than 10 per centum," "which will offset such [unfair] method or act." Section 317 gives authority for the possible imposition of retaliatory duties, where the President "finds that the public interest will be served thereby," within the discretion of the President "but not to exceed 50 per cent *ad valorem* or its equivalent" upon any or all products of any country, colony, or province which discriminates "in such manner as to place the commerce of the United States at a disadvantage compared with the commerce of any foreign country." Under both sections the Tariff Commission finds the facts and makes recommendations.

Section 316 is in the same class with provisions long contained in our law for imposing countervailing duties equal to the amount of foreign export bounties, for imposing dumping duties upon products sold for export to the United States at prices below the market value in the foreign country, and for exclud-

ing articles bearing trade-marks, or simulations of trade-marks, of domestic producers. It provides an administrative procedure for dealing with cases which can not be covered by general law,—a procedure modeled on that of the Federal Trade Commission in dealing with unfair competition in the domestic market.

Section 317 takes the place of the maximum and minimum tariff provision of the tariff act of 1909, and of certain bargaining provisions in earlier tariff laws. Some bargaining or penalizing provision would seem to be necessary when so many countries are wedded to bargaining systems and inclined to discriminate against the trade of any country which will not bargain with them.

Sections 316 and 317 have not been under fire, and were not investigated by the Senate Committee.[5] They have really nothing to do with the flexible system, but they have been "tarred with the same brush," apparently because the same men were in part responsible for all three sections, because the sections are contiguous, and because all three give power to the President. But the President's power under section 316 is very similar to powers long exercised by the Treasury Department; and his powers under section 317 are such that they must be entrusted to the diplomatic branch of the government. None the less, one of the reports of the Senate Committee favors the repeal of "the flexible tariff, particularly section 315."

CONCLUSION

There seems to be some danger that Congress, legislating by impatience and destructively, rather than with discriminating constructiveness, will discard the whole idea of a flexible tariff because of criticisms of the present flexible tariff, and will discard the bargaining and unfair-competition provisions because of certain most superficial similarities to section 315.

[5] Certainly they received no attention sufficient to bring them into the newspaper accounts of the proceedings. Observers who followed the proceedings most closely recall hearing nothing about sections 316 and 317. The only public comment on these sections that has come to the writer's attention is that of George C. Davis, Customs Adviser to the National Council of American Importers and Traders, in a speech at Houston, Texas, reported in the *Journal of Commerce*, New York, April 28, 1928. Referring to sections 316 and 317 Mr. Davis said:

> These sections should be remodeled. All of our retaliatory provisions should have some flexibility, and their application should be contingent depending upon our treatment by other governments. While the intent of these provisions is equitable enough, it would be interesting to note the result to our foreign trade if other countries applied them in the same arbitrary manner against products we export. The sections should not be mandatory. Some discretion should be left in their enforcement.

In other words, section 317, which leaves to the President the power to act or refrain from acting as the public interest may dictate, and under which in fact no proclamation has been issued in six years, should be remodeled to take away its mandatory character and avoid its arbitrary application! A provision under which the President may "declare such new or additional rate or rates of duty as he shall determine will offset such [discriminatory] burdens"—anything from 1 per cent *ad valorem* upon one least important product to 50 per cent *ad valorem* upon every product of the foreign country—is to be remodeled to give it "some flexibility," to allow "some discretion," and to permit its application to be made "contingent upon our treatment by other governments!"

Tariff Making in Great Britain and the Dominions

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INTRODUCTION

The Tendency Toward Independent Tariff-Investigating Bodies

THE past decade or so has seen considerable change in the methods of tariff-making in many countries, as well as in the tariff policy and trade control measures themselves. Much of this change has been temporary, but a good deal has been earnest experimentation looking toward permanent changes to more satisfactory methods. One of the most significant developments in governmental mechanism since the War in the field of tariffs—as of several other complex economic problems—has been the tendency to create special commissions, boards, or committees to carry on the necessary investigations for the Government and otherwise assist executives, cabinets or legislatures in making their decisions on these problems.

In some cases, the desire has been primarily for an arrangement that would ensure promptness in adjusting duties on imports to changing conditions, a task which the legislature could not itself, by its very nature of functioning, handle as expeditiously or as consistently. In other cases, however, governments appear to have been led to the establishment of special tariff-investigating bodies out of a growing feeling that the ascertainment of the true conditions in a given industry and trade, and the arrival at judgments that will deal fairly with all the complex industrial and commercial considerations involved in the setting of a tariff rate, constitute a task for a detached body of qualified experts rather than for the members of a legislature who are preoccupied with a multitude of public problems.

In many of the countries of Europe, as a fair degree of stabilization has been attained in their currency and general economic conditions, the delegated authority in connection with the tariff, which for a time had been vested in ministerial commissions or special committees, has already been largely terminated. Great Britain and certain of the larger Dominions, however, illustrate the other tendency; the tariff boards or committees that have been established in these areas during the past decade appear to be regarded as more permanent institutions, intended definitely to form part of the governmental mechanism by which current tariff needs and problems are studied and practical measures decided upon. The nature of the functions with which these tariff bodies are usually charged, and the observed fact that legislative action is becoming increasingly dependent in these areas upon prior inquiries and reports by the tariff-investigating bodies, strengthen the expectation of their indefinite continuance, with any modifications in function or procedure likely to be in the direction of strengthening rather than weakening their importance.

Particularly in view of the plan being worked out in the United States, of charging a tariff commission

with carrying on detailed investigations into the bearing of the import trade upon domestic industry as a basis for tariff changes, either by the legislature or, under the "flexible authority," by the Executive, does it seem worth while to examine in some detail the tariff-making methods in the major British areas where somewhat similar experiments are being tried out. The precise functions, make-up, criteria, and mode of operation of the tariff bodies in these countries seem worthy of examination, as well as the question of the relationship between the investigating body and the Executive, cabinet or the legislature of the country, in so far as they share in some degree the task of tariff-building. A sketch of how tariff-making is actually done in Great Britain and, as illustrative of the Dominions, in Canada and in Australia, will first be presented, as the necessary background for any suggestive observations that may be derived from their experience which may be helpful to other countries confronted with a similar problem.

CHAPTER I

Tariff-Making in Great Britain

In so far as Great Britain maintains a list of goods dutiable upon importation, there are two methods of changing or adding to that list: by the inclusion of changes in the Annual Budget; or by the issuance of special orders as the result of committee investigations. The first is the time-honored method of the Chancellor of the Exchequer recommending specific tariff changes as part of his annual budget speech each spring. These recommendations become effective provisionally at midnight of the day of presentation. In fact, it is understood that the custom houses throughout Great Britain close early on budget day in order to avoid any confusion in the transition to the new duties, which are already in their hands as sealed messages ready to be opened at the given hour that the Chancellor of the Exchequer delivers his address before the Parliament, and to be effective from midnight. The Government's recommendations require ratification to be permanently effective, and in the Parliamentary discussions that take place there have often been material changes, which are retroactive to the date of presentation, although most often the Budget is approved practically as presented.

Cabinet Tariff Proposals in Annual Budget

There appears to be no set policy by which the Chancellor of the Exchequer, speaking for the Government, reaches his decision as to the changes in customs duties that he is to present to Parliament. Since the tariff changes are part of the budget plan, and have to be considered in connection with the proposed advances or reductions in other forms of taxation, the fiscal consideration appears usually to have dominated in the decision. In recent years, however, the protective motive has been growing in prominence. Moreover, with the extension of the British duties beyond the traditional revenue tariff lists of non-competitive products such as tea, coffee, liquors, and tobacco, into the fields of competitive products, it has been observed that many a duty which came as revenue remained as protection. The so-called McKenna duties, imposed during the War ostensively to curtail luxury imports and conserve import tonnage, are of this

character; after having been once dropped by the Labour Government, they were restored upon the return of the Conservative Party in 1925, and subsequently even extended to include additional related commodities.

It is known that the Chancellor of the Exchequer has attached to his Department experts for the study of various tariff as well as other fiscal measures, and the Chancellor has frequently sought to give weight to his proposals before Parliament by indicating that he had had such and such expert or scientific advice on the given subject. While no general open hearings are held, it is known that tariff proposals have often followed the visit of delegations from trade associations or industrial groups to the Chancellor or the Prime Minister. It is understood that the replies to these delegations are unusually non-committal, simply promising study of their proposals. In many cases, proposals are definitely turned down by the Minister on the grounds of inconsistency with the general policy of the Government of not introducing a general protective tariff. This criterion of the general policy of the Government, as enunciated in the campaign speeches of the Prime Minister, appears to be the nearest to a definite criterion by which decision is made as to the duties of a protective character.

Tariff Changes After Investigation by Safeguarding Committees

The second method of tariff-making consists of the presentation to Parliament by the Government, at any time during the year, of orders levying or increasing the duty upon particular commodities which had been the subject of investigation and report by special committees, established under what is known as the "Safeguarding of Industries Scheme." The frequent criticism of this procedure heard in England, as having no definite basis of legislative authority, is met by describing it as simply a practical extension of the spirit and purpose of the Safeguarding of Industries Act of 1921, under which protective duties were established on a selected list of products essential to what were regarded as "key industries." The intention of so extending it was foreshadowed in the declaration of Prime Minister Baldwin during the campaign of 1924, which resulted in the Conservative Party being restored to power: "While a general tariff is no part of our program, we are determined to safeguard the employment and standards of living of our people in any efficient industry in which they are imperilled by unfair foreign competition by applying the principle of the Safeguarding of Industries Act, or by analogous measures."

The so-called "White Paper Procedure," which is the basis of the principal present means of tariff-making in Great Britain, provides essentially as follows: Individual industries, excepting foodstuffs, may make their applications for tariff consideration to the Board of Trade. If, upon preliminary consideration of the claim, the Board of Trade is satisfied that a *prima facie* case has been made out by the applicant, a special committee of three to five persons is appointed for the purpose of making a full and careful inquiry into the status of the industry, holding its sittings in public except when confidential matters are raised, and submitting a report of its findings and recommendations to the Board. If the special safeguarding committee makes a favorable report, and the Board of Trade agrees with the conclusions in the report, the duties proposed are then put into a Finance Bill and put before the Parliament for approval as an administration measure.

British Tests as to Necessity for a Protective Duty

Before ordering an inquiry on the application of a particular industry, the Board of Trade must be satisfied on several points:

(1) That the industry is of substantial importance;
(2) That competition of foreign imports is exceptional, and employment is seriously affected;
(3) That there is unfair competition because one or more of the following conditions obtain in the countries from which competition comes; (a) depreciation of currency, (b) subsidies, (c) lower wages, longer hours, or unfair conditions of employment;
(4) That the home industry is carried on with reasonable efficiency and economy; and
(5) That the imposition of a duty will not have an adverse effect upon employment in any other industry.

The committees to whom inquiries are referred are directed to consider practically the same tests in making their report and recommendations as the Board of Trade in its preliminary review of the application, plus the additional consideration as to whether the foreign goods are being sold or offered for sale at prices below that at which similar goods can profitably be made in England. If the committee is of the opinion that the industry has established its claim, it is required to recommend in its report what rate of duty it thinks will be reasonably sufficient to counteract the "unfair competition." While the reports of the individual committees are printed fairly promptly, the Board of Trade itself does not make public any report as to its attitude on the applications presented to it for preliminary consideration.

It is understood, however, that in the three and one-half years since the establishment of this method of tariff-making, of the 49 industries which have presented requests for protective duties on their products, 29 were refused by the Board of Trade, the refused cases including applications from the iron and steel, linen, and other major industries of the country. Of the 20 cases referred to committees for investigation, duties have thus far been recommended and actually granted on 9 lines of products, the other 11 having failed to establish their claims with the investigating committees. In these 9 cases, almost all involving rather minor or secondary industries, Parliament has regularly given its approval to the recommendations of the Government.

Criticism of Present Procedure and Changes Expected

The advantage claimed for this method of tariff-making, upon the basis of reports by the Board of Trade committees, has been that it allows of more thorough examination of each specific proposal for duty than was afforded when the original Safeguarding of Industries duties of 1921 had to be worked out in the course of direct discussions in Parliament. During the past year, however, considerable complaint has been heard regarding the operation of the present safeguarding procedure. It has been urged from many directions that the conditions which industries were required to meet in order to receive consideration were too severe, that the procedure was prolonged and uncertain in its operation, and, particularly, that many applications from important industries were being turned down directly upon their presentation to the Board of Trade, without being given the opportunity of

having their claims fully studied by an investigating committee. It has been claimed, moreover, that the appointment of a separate committee for each application has resulted in a striking lack of uniformity in the interpretation by the different committees of such criteria as "abnormal importations" or "unfair competition," and that the resulting recommendations of the various committees showed a marked inconsistency.

When pressed hard on this subject at the Annual Conference of the Conservative Party at Yarmouth recently (September, 1928), to the point of adoption of a strong resolution of criticism on the slow progress in the Safeguarding program,[1] Prime Minister Baldwin admitted that "the procedure needs simplifying and shortening" and promised that "no industry will be barred from taking its case, and proving it if it can, before the appropriate tribunal." He did, however, recall the agreement that there was to be no tax on food, and repeated his earlier pledge that "Safeguarding will not be used as a side door or back door by which to introduce a general tariff until the question of a general tariff has been submitted to the country."

According to the interpretation of the British press, the recent developments are expected to result—assuming the return of the Conservative Party to power in the elections planned for next spring—in material modifications in the Safeguarding procedure. While the conditions which applicant industries must fulfill before their request may receive a favorable recommendation will probably remain substantially unaltered,[2] it is expected that the Government will "speed up" the machinery, and provide for the appointment of a permanent tribunal which will hear all applications for safeguarding, with no industry outside the range of foodstuffs to be debarred from the right to have its case heard by this tribunal. If these expectations are fulfilled, England will have followed the precedent established in other countries, of relying upon an established tariff commission or similar investigating body as an essential feature of its method of tariff-making. It is interesting to note that the very insistence from the various directions upon the privilege of a hearing before an investigating body implies a distinct, if perhaps unconscious, recognition that some form of prior inquiry by a special investigating body is desirable as a condition of Parliament considering additions or modifications of the country's tariff.

[1] "This Conference reaffirms the unanimous resolutions of the last three conferences, calling for the widest possible extension of the Safeguarding of Industries consistent with the Prime Minister's election pledge, regrets the slow progress made, and, in view of the grave and continued unemployment over large areas of the country, urges that the earliest possible steps should be taken to safeguard additional industries, and especially the iron and steel industries."

[2] In the course of Parliamentary debate, a member of the British Cabinet has since announced the details of the new "Safeguarding" procedure which the Conservative Government proposes to establish, if returned to power at the general election next year. (See Parliamentary Debates House of Commons, November 14, 1928, page 940.)

The principal changes in the conditions to be met by industries applying for protective duties are: that the importations constitute a substantial proportion of the total consumption of the particular class of goods in the country; that the imposition of the duty in question would not exert a seriously adverse effect upon costs of production in any productive industry, including agriculture.

CHAPTER II

Tariff-Making in Canada

Tariff-making in Canada is essentially a once-a-year matter, in connection with the presentation of the Annual Budget each spring. Parliament has the right of modification or rejection of particular items, but the primary judgment as to the commodities to be selected for tariff consideration in connection with a given Budget, and the nature and amount of the changes, appears to reside in the Cabinet, and, specifically, in the Minister of Finance. In arriving at his judgment or decisions as to the proposals for tariff changes that he is to present to Parliament, the Minister of Finance has, since 1926, had the benefit of the investigations and reports made by an Advisory Board on Tariff and Taxation.

Differences from England in Tariff Scope and Legislative Share

While in its broad outlines the method of tariff-making in Canada seems very similar to that of Great Britain, a closer examination reveals a number of material differences. The outstanding difference is in the scope of the possible tariff action. While in England, under the present policy, only limited classes of commodities can be made subject to duty, all food products and the major industries having been hitherto excluded by the campaign pledges of the Prime Minister, the Canadian tariff system is much more fully developed, and the entire range of articles that enter into commerce can be considered for the imposition of duty, or can have the duties modified, within the judgment of the Government and Parliament.

Moreover, while in Canada as in England, the tariff proposals carried by the Annual Budget became provisionally effective at once, subject to the approval of Parliament, it has been observed that, in practice, these tariff proposals submitted by the Canadian Minister of Finance are more often subject to real consideration, and sometimes material modification, in the course of their passage through Parliament, than is the case with the tariff proposals presented by the Chancellor of the Exchequer at London. This may be due in part to the fact that the tariff duties carried by the British Budget are usually much smaller in number, and having been traditionally regarded as primarily revenue in character, are not as amenable to material change by Parliament without possibly unbalancing the budget calculations for the year. In Canada, on the other hand, where a protective policy has been in operation for many years, the considerations of revenue appear to be secondary in importance to the question of either protection to the corresponding domestic industry, or the desirability of making available to domestic industries or consumers, given equipment, material, or products from abroad at lower prices.

However, should the tendency recently observed in England be accelerated, of adding to the dutiable list commodities in which the primary interest is that of safeguarding the domestic industry, with the revenue to be derived upon importations regarded as an incidental matter, it is not unlikely that the tariff proposals of the British Cabinet will receive more active discussion on the part of Parliament, as the emphasis shifts to the protective or economic significance of the measures,

thus approaching the situation in this respect observed in Canada.

Objectives in Canadian Tariff-Making

The Liberal Party which has been in power in Canada almost continuously since 1922, under the Premiership of Mackenzie King, appears to have been governed, in its tariff program, by a desire to reduce the cost of living in Canada and at the same time to provide a moderate degree of protection for industry. The fact that, for a time, the Liberal Party held its majority in Parliament only through the support of the small number of "Progressive" members from the western Prairie Provinces, who advocate lower import duties on commodities purchased by farmers, may have accounted for its somewhat conciliatory position on the tariff. Judging from their actual tariff proposals and changes, however, the Liberal Cabinet appears to be guided in its decisions principally by three considerations: a belief in reasonable protection to domestic industry, consistent with keeping down the cost of living; a desire to promote industrial development by waiving or reducing the duties on semi-processed materials and machinery and equipment when not produced in sufficient quantities within the country; and finally, by an inclination to promote inter-Empire trade through increasing the margins of preference in the Canadian market to the products of Great Britain and of other reciprocating Dominions.

Unlike Great Britain, where the Prime Minister appears to carry the distinct responsibility for declaring the tariff policy of his Government and for defending such actions as are taken—although actually introduced by the Chancellor of the Exchequer—the weight of responsibility in Canada appears to rest more largely with the Minister of Finance. No definite statement is regularly given out as to the grounds upon which the Canadian Minister of Finance or the Cabinet arrives at decisions with regard to tariff matters, either as to the precise procedure in selecting the commodities for tariff consideration, or the exact nature of the inquiry made in the cases of articles taken up for consideration.

In connection with the Tariff Revision of 1921, the Minister of Finance stated that a "Committee" instituted inquiries in each Province, holding hearings on the products of local interest, and that the conclusions he submitted to Parliament were founded upon the report of this committee. References to the activities of such a "Tariff Committee" within the Government have appeared also at various other times. At least until the institution of the Tariff Advisory Board, the usual way of getting consideration for a given commodity appears to have been for groups of manufacturers, or deputations representing particular industries, or members of the provincial legislatures or of the Dominion Parliament itself, to wait upon the members of the Cabinet and present appeals or briefs, urging this or that change in duty.

Procedure and Functions of Canadian Tariff Board

Since the establishment of the Tariff Advisory Board in 1926, procedure in seeking tariff changes has become somewhat more regularized. Without doing away entirely with the time-honored method of deputations and representations to the Government, the more usual method is for those applying for a change in the tariff to present their case in writing to the Minister of Finance requesting that it go before the Tariff Board. If the Minister sees fit, he refers the matter to the Board, which, if a preliminary in-

vestigation indicates that the application is meritorious, sets the date for a public hearing, at which the parties concerned may present oral or written statements, with the privilege of later amplifying their views in written briefs. Advance notice is given in respect to all public hearings of every character, and everybody having an interest in the case is given opportunity to be heard. In some cases more than one public sitting is necessary; in fact, on most applications there appears to be a record of two hearings and, in rare cases, a third. There is usually a period of several months between successive hearings on a given commodity, which suggests that in the interval private investigations—possibly involving visits to the places of production—are carried on by the experts attached to the Tariff Board.

The Canadian Tariff Board tries to serve so as to relieve the Minister of Finance from the necessity of making decisions without sufficient bases, by acting in a judicial capacity, as a sort of an umpire between rival claims of advocates of a high or a low tariff on a particular commodity. It does not, however, operate as a court with rigid rules of procedure and evidence, but rather develops its machinery and method of operation as it proceeds. The Board has not been given any very precise criterion as to the principles on which it is to proceed, the test to apply in a given request for a change in duty, or the circumstances under which it is to feel warranted in approving an application. No more definite specification is known than is contained in the announcement at the time of its establishment, as part of the legislative program outlined by the Governor-General at the opening of the Canadian Parliament in January, 1926, namely, "to make a careful study of the customs tariff, the revenues to be derived therefrom, and the effect of the tariff and allied factors on industry and agriculture."

Criteria and Personnel of Canadian Board

To an outside observer it would appear that the Board was intended to proceed as does the prevailing party in power, upon a general principle of moderate protection, taking into account the various counterbalancing considerations of the national interest. One is confirmed in that belief by the fact that the Board issues no published reports of its findings and recommendations in the cases it investigates, apparently communicating them confidentially to the Minister of Finance who actually makes the decisions as to which applications reported on shall receive any action, and the amount of duty change that shall be made. This assumption is also borne out by the personnel of the Board. While there have been several changes since its establishment, usually by resignations, the original membership as announced by the Prime Minister on March 25, 1926, consisted of a former member of Parliament and of the Cabinet, regarded as a moderate Protectionist, as Chairman of the Board, assisted by a shoe manufacturer and former President of the Montreal Chamber of Commerce, regarded as a high-tariff advocate, and a prominent western farmer, known as a low-tariff man. The present Chairman of the Board is recognized in Canada as a prominent economist. While the Board itself is limited to three members, experts are engaged to assist them, and there are associated with the Board from time to time members of permanent services of the Government, such as the Departments of Finance, National Revenue, Trade and Commerce, Agriculture, and Labour.

By the terms of its creation, the Tariff Board was planned as an impartial body. In the campaign of 1925, Premier King met the historic Conservative demand for a general upward revision of the tariff by maintaining that the existing tariff afforded sufficient protection to the country, and that the only means of improving it would be to create an impartial tariff commission to study and recommend needed changes. Apparently the impartial character is regarded as being secured by having the Board made up of a high protectionist, a low-tariff man, and a moderate protectionist.

Summary and Promptness of Operations of Tariff Board

The Tariff Board began operation in April, 1926. Inside of one year, the Board had received 67 applications for changes in the tariff, of which 31 called for upward revision, 35 for downward revision, and one was in connection with the preferential tariff. During that period, the Board had conducted hearings on about 50 of the 67 applications, and completed its reports to the Minister of Finance on 16 of the cases considered. Since the reports of the Board to the Minister are not made public, their tenor can be judged only from the tariff action finally recommended in the Budget introduced into Parliament the following spring.

Judging from the changes carried by the Budget of early 1928, the first Budget after the Tariff Board had been in operation for a sufficient length of time for the results of its investigations to be felt, the Board was apparently as ready to recommend decreases in duties as increases, in accordance with the circumstances in the particular case. In some instances the desired effect was brought about rather by a re-drafting of the classifications in given schedules. In the changes actually made in 1928, it appears that when reductions in duties seemed warranted, they were often effected by reducing the British preferential rate paid on goods from Great Britain and other reciprocating Dominions, without necessarily changing either the intermediate rate, applying to the products of foreign countries having treaties with Canada, or the general rate, which is levied on products of countries like the United States which have no commercial treaties with Canada. To a degree, it would therefore seem that the reductions embodied in the last budget tariff revision in Canada were made to serve a double purpose: of making the given products available to the users in the country at lower prices, and at the same time of increasing the margin of tariff advantage to British products in the Canadian market.

It is interesting to note that by October, 1928,—after two and a half years of operation,—the total applications received by the Board amounted to approximately 117, of which 49 called for increases, 65 for reductions, with the object of the other 3 not disclosed. According to the best information available, the Board had held 145 hearings on approximately 111 of these applications, plus 20 incorporated requests bearing on previous applications. While the number of its reports on these cases to the Minister of Finance is not yet obtainable, and cannot be judged until after the tariff changes of the 1929 budget are announced, there are indications that a substantial proportion of applications that have been before the Board for any length of time have been reported on.

In general, it has been observed that the interval between the date of reference of an application for duty-change to the Canadian Tariff Board

and the date on which a report is submitted, or action taken, is usually a matter of months. The relative promptness with which the Canadian Tariff Board carries through its investigations on such applications may be due, in part, to the comparative facility of obtaining the salient facts in the majority of cases referred to the Board, in view of the relative simplicity of the industrial structure of the country. In part, however, it has been ascribed to the fact that the Canadian Board can proceed in its investigations by general rather than rigid criteria, and can arrive at its conclusions mainly on the basis of the facts developed regarding the actual competitive situation, without being required in each case to institute elaborate statistical inquiries which necessarily take long periods for their completion.[3]

PROVISIONS FOR NON-COMPETITIVE IMPORTS AND TREATY CONCESSIONS

In addition to the primary method of tariff-making through changes embodied in the Annual Budget, two secondary forms of tariff modification practices in Canada should be mentioned. Under the Canadian Customs Act, the Governor-in-Council is empowered to reduce the rates of duty or to transfer to the free list natural or processed articles used as materials in Canadian manufactures. This authority has been used from time to time, but is considered not so much an additional tariff-making method as a means of executive carrying through of the general intentions of Parliament in particular cases where presumably no Canadian competition is involved. A similar provision regarding certain broad classes of machinery or equipment for specified industries is embodied in the tariff itself, authorizing their importation into Canada free of duty when "of a class or kind not made in Canada." The decision in questionable cases is made by the customs administration, and orders are frequently issued instructing customs officers to levy the statutory duty or to waive it on particular machinery, on the ground of its availability or non-availability within the country.

The other secondary means for making tariff modifications in Canada is that vested in the Government, incidental to the negotiations of treaties with various British or foreign countries, in the course of which tariff concessions are exchanged. It should be noted, however, that the reductions granted by Canada in the course of her commercial treaties have usually consisted of granting, in whole or in part, the benefit of rates already established in the tariff schedule in the form of what is known as either "intermediate" or "British Preferential" rates. British areas usually get the benefit of the latter, and foreign countries the more moderately reduced rates of the former. Canada has negotiated quite a number of commercial treaties or reciprocity agreements during the past few years, and the relative ease with which the negotiations are apparently able to promise the benefits of the preferential rates or intermediate rates, appears to confirm the understanding that the higher rates of the intermediate or general schedules of the Canadian tariff are, in general, so set as to allow a margin for possible concession in the course of treaty negotiations, in the interest of securing reciprocal advantages to Canadian products in British or foreign markets.

In addition to the method of granting tariff concessions by treaties, which are subject to Parliamentary

[3] It should be noted, however, that in a few instances, involving rather basic industries, the Canadian Tariff Board has conducted fairly extensive investigations.

ratification, the Governor-in-Council has the authority to extend the benefit of the intermediate or preferential rates, in whole or in part, to other British or foreign countries who accord benefits to Canadian trade that the Governor regards as "satisfactory." This method is less frequently employed, however, than the treaty method.

CHAPTER III

TARIFF-MAKING IN AUSTRALIA

In its broad outlines the tariff-making process of Australia is similar to that of Canada. The Australian system resembles the Canadian, and the general British pattern, in requiring Parliamentary consideration and approval before changes in duties may be made permanent, and also in the arrangement whereby the Cabinet, through the Minister for Trade and Customs, originates tariff measures and drafts revisions, with the assistance of a tariff board. There are two important distinctions, however, that mark the Australian system.

REVISIONS AT IRREGULAR INTERVALS RATHER THAN ANNUALLY

While the revenue aspect of the tariff is prominent in Australia, the English practice of having major tariff changes presented to Parliament as part of the annual budget program of the Cabinet is not followed, nor the Canadian practice of combining all tariff proposals which the Cabinet regards as warranted into a single measure and presenting it before Parliament upon its assembling each year, with no changes ordered between the annual bills.

Judging by the events of the past decade, tariff changes are brought about in Australia mainly through more or less general revisions at irregular intervals. However, that does not preclude modifications in duties being introduced between revisions on individual commodities or groups of commodities regarding which investigations by the Tariff Board have convinced the Minister for Trade and Customs that the need for urgent action exists.

TARIFF BOARD AN INTEGRAL PART OF AUSTRALIAN SYSTEM

The most distinctive feature, however, of the Australian organization for tariff-making is the integral, and almost indispensable, place that the Tariff Board occupies as investigator and adviser, both to Parliament and to the Minister, on the whole gamut of tariff problems, from a matter of the specific rate on a given commodity to questions of general tariff and industrial policy of the country. As will appear from the detailed discussion to follow, while the functions of the Tariff Board are purely advisory, and neither the Minister nor the Legislature are obliged to follow the recommendations embodied in the reports of the Board, according to the Australian law, no tariff action of any consequence may be taken by either the Minister or Parliament without a prior investigation, report and recommendation by the Tariff Board. In view of the important place assigned to the Tariff Board in the Australian tariff-making system, the details of that system and its actual operation seem worth particularly close examination.

General Policy of Protection Accepted by All Political Parties

Varying only in degree, or in the commodities emphasized, all political parties in Australia now accept the fiscal policy of protection. The National Party, which—in coalition with the Country Party—has been in control since February, 1923, and has just been again endorsed at the polls (November, 1928), appears to regard it as one of the prime features of its program to give every support and encouragement to any line of agricultural or manufacturing industry[4] that seems to it at all appropriate to the country, by the granting of import duties, bounties, or any other means within the power of the Government, consistent with consideration for the consumers, and its general policy as to the national desirability of paying the price necessary to encourage a particular line of development. In this general program, the Federal Labour Party, which was at one time insistent upon the scheme known as the "New Protection", that was to ensure that the benefits of protection to manufacturers should be extended to consumers and to the workers in protected industries, in the form of "fair prices" and "fair wages", has in recent years made full common cause with the National Party in support of a strong protective program. The Country Party, the third element in federal politics, while urging the extension of the principle of governmental assistance to "primary" products, whether by tariff or other means, has been active in working for reduction of duties on manufactured goods, particularly those which are essential to "the man on the land"—such as agricultural implements.

[4] Known in Australia as "primary" and "secondary" industries.

Origin of Tariff Board and Advantages Anticipated

The idea of a board which should investigate tariff matters and advise both the Parliament and the Minister had been agitated in Australia intermittently since the beginning of the century. The present Board was established in 1921, in fulfilment of a promise made by Mr. Hughes, then Prime Minister, during the election of 1919, for a protective tariff coupled with security for the consumer. In introducing the Tariff Board Bill into the House of Representatives, the Minister for Trade and Customs declared that the Government was following the same lines as the United States, although it appears that a number of very material and distinctive changes were introduced into the Australian bill. The advantages expected to follow from the appointment of such a board are well described by a prominent Australian economist.[5]

It was thought desirable to have a special body which would study the operation of the tariff and its effects upon the development of Australian industry. Moreover, members of Parliament were anxious that when they were dealing with general tariff schedules they should be able to rely upon exact evidence and carefully compiled information, instead of the vague or interested *ex parte* statements and the lobbying to which they had been accustomed. It was even hoped that this would lead to the framing of tariffs on "scientific lines" in place of the usual empiricism. A further advantage was expected from the fact that the Board would be charged with the duty of protecting the consumer against those manufacturers who might make use of the tariff to exact unduly high prices. It was believed that Parliament might safely act in such a case upon the report and advice of the Board. The experiment

[5] Professor R. C. Mills, University of Sydney, in "The Economic Record," Melbourne, May, 1927.

of New Protection having failed because of the constitutional issue, the Hughes Government in 1919 had asked by referendum for increased legislative power to provide similar remedies for unduly high prices, and, since this request had been refused, the Tariff Board was to be *inter alia* a means to the same end of protecting the consumer.

The Minister for Trade and Customs, too, needed advice. Recent legislation had added to the already heavy administrative burden of his Department, and the Tariff Board was an alternative to an increase in his staff. The Minister wished for advice not only as to granting bounties, but also as to several matters of administration, notably the admission of goods free or at reduced duties under Departmental By-Law.

Again, in the tariff of 1920–1921, it was provided that reciprocal treaties might be arranged with other countries which would remove their goods from one list to another. The negotiation of these treaties necessitated careful inquiry and research, and for this the machinery of the Tariff Board was considered peculiarly suitable. That tariff also contained new provisions for deferred duties which were to operate unless it were certified to the Minister that the goods concerned could not be produced in Australia. This delegated legislative power was only to be exercised by the Minister after a report of the Tariff Board. Finally, it was proposed to introduce legislation giving wide powers to the Minister to deal with the problem of dumping and the tariff difficulties which arose out of trade relations with countries of which the currencies had depreciated. The exercise of these powers would throw greater responsibility upon the Minister, and the Tariff Board was intended to be a definite means of having such matters sifted and examined as carefully as possible.

FLEXIBLE TARIFF FEATURES

It will be noted that Australia regards the imposition of the statutory tariff duties as only one of the means available for the fostering of domestic industry and regulating the trade relations with other countries. The deferred duties, "By-law" concessions, antidumping duties and bounties, taken together, might be regarded as establishing a considerable measure of flexible tariff authority, since they serve to enforce or moderate the statutory duties, and their exercise in particular cases is vested in the Minister rather than in the Parliament. In the application of these measures, previous investigation by the Tariff Board is a prerequisite of any action being taken. The scope and actual application of these alternative devices will be discussed later, but their existence needs to be kept in mind as important features of the Australian system.

The full nature and extent of the matters with which the Board is required or may be called upon to deal, constitute a larger task than is indicated in the above sketch of the principal purposes for its creation.[6]

[6] The full statement of the functions of the Tariff Board, as set forth in the Tariff Board Act of 1921–1924, is quoted here, for completeness:

Section 15. (1) The Minister shall refer to the Board for inquiry and report the following matters:

(a) The classification of goods under all Tariff Items which provide for classification under By-laws;
(b) The determination of the value of goods for duty under Section 160 of the Customs Act 1901–1920;
(c) Any dispute arising out of the interpretation of any Customs Tariff or Excise Tariff, or the classification of articles in any Tariff, in which an appeal is made to the Minister from the decision of the Comptroller-General;
(d) The necessity for new, increased, or reduced duties, and the deferment of existing or proposed deferred duties;
(e) The effect of existing bounties or of bounties subsequently granted;
(f) The necessity for granting bounties for the encouragement of any primary or secondary industry in Australia;
(g) Any proposal for the application of the

Several of these are of a character which in other countries are regarded as more distinctly tasks for the customs administration itself, or for a Court of Customs Appeals. The Tariff Board has, in fact, recommended that it be relieved of certain of these functions, and in a recent campaign address, the Prime Minister has promised that measures to revise the functions of the Board will be taken, so that it may be freer to devote itself to the more fundamental problems.

Personnel, Tenure and General Powers of Tariff Board

The Board was made up originally of three members, and later enlarged to four, who are appointed by the Governor General for terms of one to three years, with eligibility for reappointment. The Governor is required to appoint as chairman an administrative officer of the Department of Trade and Customs, in order to assure that close liaison between the two organizations that will give the Board the benefit of the experience of the Department. The Chairman has usually been the Deputy Controller-General of Customs. For the other three members it appears to have been the effort to choose one man each to represent the interests of the manufacturers, of the importers, and of the primary producers of the Commonwealth. The law provides that a member of the Board cannot exercise any power conferred upon him in any matters in which he has a direct pecuniary interest. The Governor General may suspend any member from office for misbehavior or incapacity, but within seven days after the suspension (or within seven days after the next meeting of Parliament) the Minister is required to lay before both Houses in Parliament a full statement of the grounds of the suspension.

By the terms of the original Act, the Board was to continue for only two years. This was extended for another year in 1923, and, by an amendment of 1924, the limitation of time

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British Preferential Tariff or the Intermediate Tariff to any part of the British Dominions or any foreign country, together with any requests received from Australian producers or exporters in relation to the export of their goods to any such part or country;

(h) Any complaint that a manufacturer is taking undue advantage of the protection afforded him by the Tariff, and in particular in regard to his—
  (i) Charging unnecessarily high prices for his goods, or
  (ii) Acting in restraint of trade to the detriment of the public; or
  (iii) Acting in a manner which results in unnecessarily high prices being charged to the consumer for his goods;

and shall not take any action in respect of any of those matters until he has received the report of the Board.

(2) The Minister may refer to the Board for their inquiry and report the following matters:

(a) The general effect of the working of the Customs Tariff and the Excise Tariff, in relation to the primary and secondary industries of the Commonwealth;
(b) The fiscal and industrial effects of the Customs laws of the Commonwealth;
(c) The incidence between the rates of duty on raw materials and on finished or partly finished products; and
(d) Any other matter in any way affecting the encouragement of primary or secondary industries in relation to the Tariff.

(3) If the Board finds on inquiry that any complaint referred to it under paragraph (h) of sub-section (1) of this section is justified, it may recommend:

(a) That the amount of duty payable on the goods the subject of the complaint be reduced or abolished; or
(b) That such other action as the Board thinks desirable be taken; but shall, before it makes any such recommendation, consider carefully the conditions obtaining in the industry as a whole.

Section 17 of the Act provides that the Board may on its own initiative inquire into and report on any of the matters referred to it in sub-section (2) of Section 15 of the Act.

was altogether removed, thus establishing the Tariff Board as a permanent body. The Board is given broad powers to summon attendance of any person, to give evidence and produce books or documents desired, and to examine witnesses under oath. Penalties are provided for refusal to appear or present evidence, for withholding documents, giving false testimony, preventing, influencing, or in any way injuring a witness before the Board. Provision is made for a scale of allowances to be paid witnesses summoned, for their traveling and other expenses.

Procedure in Initiation of Tariff Modifications

While the Tariff Board may undertake certain investigations or studies upon its own initiative, in general, the consideration of tariff changes—in Australia as elsewhere—is usually initiated through interested individuals, associations or industrial groups approaching the Minister for Trade and Customs with petitions for governmental assistance or relief on a given commodity or class of commodities. If the Minister considers the petition a proper one, the regular procedure during the last few years has been to refer it to the Tariff Board for inquiry and report. Since the law provides that matters involving new, increased, or reduced duties, and the deferment of proposed duties, must be referred by the Minister to the Tariff Board, and cannot be acted upon without the benefit of an inquiry and report from that body, the Tariff Board investigations thus appear to become the originating stage and moving force in the process of tariff-making in Australia.

Objectives and Criteria in Tariff Board Investigations

In dealing with requests for increased assistance—and the great majority of requests for tariff changes have been for increased duties—the Board declares that "it has kept in mind the policy of the Commonwealth as expressed by Parliament, to afford to those industries such assistance, either in form of increased duties or bounties, as the circumstances may warrant, as will give them sufficient protection against those countries which, by reason of lower costs of production, are enabled to place their products on Australian markets in competition with Australian products at prices with which the local manufacturers, who operate under very much higher standards of wages, cannot possibly compete." It also states that "before recommending the granting of any request for increased assistance, the Board has satisfied itself as to the efficiency of the local industries concerned, and has also given attention to the question of costs of production in such industries. Where necessary, the Board has caused exhaustive investigations to be made by certificated accountants."

While placing much stress upon costs of production in considering duty change applications, the Australian Tariff Board does not appear, as a rule, to have regularly required for its decisions elaborate investigations, to the point of presentation of comparative costs of production from the countries whence the imports come.[7] It does inquire into the production costs of Australian producers, and endeavors to get what information is available from witnesses or other sources regarding prices, wage costs, and conditions of production in foreign countries. There is no indication, however, of its

[7] In a few cases, notably in reconsidering the existing duties on iron and steel and on agricultural implements, the Board did make quite exhaustive investigations, but without attempting precise cost-of-production comparisons.

having sent investigators abroad, and domestic costs appear to have been considered not as the determinant but rather as one of the indicative factors, serving to show whether the local industry is being conducted with efficiency, and whether the gap between wages and costs in the particular industry in Australia and in the competing countries is not so great that it could not be equalized by a duty without making the tariff excessive and unduly increasing the price of the articles to the Australian users.

From a study of the available published reports of the Australian Tariff Board on particular investigations, it appears that the Board has endeavored to give consideration to every factor in the competitive situation between the imported and the domestic products involved in each inquiry. The general objective in the course of examination of witnesses appears to have been to ascertain the rate of duty that would place the domestic products "on an equal selling basis" with the imported products in the Australian market, "in order to enable the local hosiery industry (or whatever the commodity) to compete."

The Board appears to have taken particular pains to determine what could reasonably be regarded as comparable articles for the purpose of gauging the extent of competition, and to have taken into account that a domestic article of superior quality did not require a duty in the amount of the full difference in selling price in order to be placed on a competitive parity. Its reports show an effort to attain selective protection, in order not to "penalize" those grades of a given line which the domestic producers were definitely not in a position to produce, although recognizing evidences of steps being taken by a local industry to meet the demand for certain articles hitherto largely imported. The Board also endeavors to judge as to the appropriateness of a particular industry to the country, by such tests as whether there were available in Australia the necessary productive facilities, adequate local supplies of raw material, or similar considerations indicating whether "the industry in Australia should be a natural and thriving one, providing greater avenues for employment than at present."

In arriving at its recommendations as to the precise rate of duty warranted in a given case, the Board has often weighed the advantages of a specific or an *ad valorem* duty, in accordance with the incidence of each upon those grades or qualities of the particular product which domestic producers are in a position to supply, and for the bearing of a given duty upon different classes of imports in accordance with the current prices of the principal competing foreign lines. To provide for complicated situations, as where the prices of foreign articles range too widely, or are not sufficiently standardized, the Board has frequently recommended a set of alternative rates (whichever returned the higher duty to govern), with the fixed specific rate operating on the lower-priced imported goods, and the minimum *ad valorem* rate applying to the imports in the higher price ranges.

MODE OF OPERATION IN TARIFF BOARD INQUIRIES

In accordance with the 1924 amendment to the original act, inquiries conducted by the Board relating to revision of tariff or proposals for bounties, or complaints of abuses of tariff duties granted, must be held in public, and evidence must be taken in public under oath, with the provision that, upon the objection of a witness, evidence which the Board is satisfied is of a confidential nature may be pre-

sented in private if the Board considers it desirable in the public interest to do so. The Board has taken a definite stand against the appearance of lawyers before them, on behalf of either applicants or opponents for tariff revision. They take the view that since the witness must swear to the statements he makes, and such statements must be on his own knowledge, they consider it, to use the Tariff Board's own words, "only wasting the Board's time for a professional or other representative witness to attempt to give evidence on matters on which he has no personal and direct knowledge."[8]

Public notice of hearings is usually given several weeks in advance, by the publication in two newspapers circulated in the State in which the inquiry is to be held, with an indication of the time, place and subject of the inquiry. Partly because of the size of the Australian Continent and the problem of transportation, the Board moves about the country holding hearings in the various cities or States. The hearings in a given city often include a number of cases then before the Board regarding which an interest has been expressed from the particular section. It is reported that in the course of its investigations the Tariff Board has visited all the States of the Commonwealth, has inspected all the more important industrial establishments, in order to obtain first-hand information regarding the conditions of various industries, and has received local deputations and attended various conferences whenever those promised to serve the object of their investigations. While in general one series of hearings in the principal cities or areas concerned is usually sufficient, the reports of the Board show that repeated hearings on the same commodity are not uncommon.

[8] Annual Report of Australian Tariff Board for 1926–27, Section 9, p. 18.

In the sittings of the Board, which are convened by the Chairman, decision is by majority, with the Chairman exercising a deliberative vote, and in the event of a tie, a second or casting vote. Minutes of the proceedings of the Board sittings are kept in prescribed form, and a summary of the testimony presented is usually embodied in the final report of the Board. The size or nature of the staff attached to the Board is not found stated, but it is known that officials of the Department of Trade and Customs have frequently been called upon for assistance in the investigations of the Tariff Board.

HANDLING OF TARIFF BOARD REPORTS BY MINISTER —ACTION OPTIONAL

Upon completion of a given investigation the Tariff Board presents its report, including a summary of findings, as well as its recommendations, to the Minister for Trade and Customs. While the Minister cannot act upon a case without such a report, he is not necessarily guided by the recommendations of the Board in every case, nor does there appear to be any obligation to act upon every case so reported. Upon such cases as the Minister sees fit to take action, the process consists of the introduction of a resolution into Parliament proposing the given change in the import duties. According to the regular practice in the British areas, tariff changes placed before Parliament by the Minister become provisionally effective at once, but can become permanent law only after approval by Parliament, the final decision with regard to tariff matters thus residing in the elected representatives in the Legislature.

In general, it has been observed that the Tariff Board usually carries through its investigations and completes its

report to the Minister on a particular inquiry within a period of several months after the date of reference to it. It appears that a great many reports do not get beyond the Minister and, in the case of those classes of goods on which the Minister does introduce a resolution for a change into Parliament, a considerable period of time not infrequently elapses before the resolution is finally acted upon by Parliament.

ACTION OF PARLIAMENT UPON RESOLUTIONS PRESENTED BY MINISTER

On resolutions covering individual commodities any modifications made by Parliament are seldom material, but in case of the more or less general revisions, the provisional changes apparently receive careful consideration at the hands of Parliament, and material modifications are frequently made in the draft as submitted by the Minister. The approval by vote of Parliament of the new duties on a particular item make those rates permanent law from that date, without waiting for the completion of the examination of all the other items embodied in a particular measure. It will be remembered that while Parliament has the right of modification, or withholding of approval, of duty changes presented by the Minister, it is not the originator of tariff legislation in Australia, the scope of its action being limited to the commodities which have been the subject of prior investigation and report by the Tariff Board.

PUBLICATION OF TARIFF BOARD REPORTS AND RECOMMENDATIONS

In order that Parliament and the public shall have the benefit of the findings and advice of the Tariff Board, the law provides that the Board shall present a report to the Minister each July as to the operation of the tariff and the development of industries, and shall in such report set out the recommendations made by the Board during the preceding twelve months, other than those whose inclusion the Minister and the Board agree is not in the public interest,—as in the case of the proposal for increased duties to which effect is soon to be given. A copy of the report of the Board is required to be laid on the table of each House of Parliament within seven days of its receipt by the Minister, or within seven days of the next meeting of Parliament, this report to be accompanied by a statement from the Minister setting out what action, if any, has been taken in respect of each recommendation of the Board.

These Annual Reports of the Tariff Board itself have been published regularly, and usually receive considerable notice in the Australian and British press, as much for the general observations by the Board on the current status and problems of industrial development in Australia, as for the survey of the Board's activities during the year in countries with various tariff proposals and related matters. The summary of recommendations called for by the law have not always been published, and on many articles that have been the subject of investigation and report by the Board, no published report appears to be available. In those cases where the Minister accepts the recommendations of the Tariff Board, the reports appear to be printed quite promptly; on others long periods may elapse, or no publication at all may be made. The extent to which the Minister of Parliament have failed to act upon the reports of the Tariff Board, or have taken action contrary to its recommendations, has been the subject of considerable press comment in Australia during the recent campaign.

Summary of Tariff Changes Since Establishment of the Board

Reviewing the actual modifications made in the Australian tariff since the general revision of December, 1921—which corresponds fairly closely to the period of the Tariff Board, whose original members were appointed early in 1922—it is observed that only relatively few commodities were made the subject of separate tariff measures, the great majority of articles on which the Board and the Minister found tariff action to be desirable apparently being acted upon during the course of the more or less general revisions, of which there have been two during the life of the Board. Thus, only 11 articles were made the subject of tariff changes by special resolutions between 1922 and the introduction into Parliament of the revision of September 2, 1925, which was amended and finally approved by Parliament on July 8, 1926. This revision affected about 100 items. Between that date and the next revision, introduced a year and a half later (November 24, 1927), about a dozen classes of goods were made the subject of tariff changes in the course of six acts of Parliament. The revision of late 1927, which was amended and finally passed by Parliament on March 31, 1928, carried changes involving 135 items in the tariff schedule. Since last March, only two articles have been the subject of special tariff action by Parliament.

Apparently it is found most feasible not to introduce changes between revisions except on articles where the situation seems urgent, reserving the majority of adjustments for the more or less periodical general revisions. In its Report for 1924, the Tariff Board pointed out that under the unsettled economic conditions the world over "any tariff enacted with a view to protecting the industry of such a country as the Commonwealth of Australia must call for continual vigilance and considerable amendment." The next year it pointed out the necessity, in a country where manufacturing industries are developing, for a periodical review of the tariff.

The Board apparently spent a considerable part of its early years in revising the tariff of 1920–21 and in hearing applications for and against changes in duties. The recommendations of the Board embodied in the resulting schedule referred to above as the revision of 1925, were, with a few modifications, adopted. The Annual Reports of the Tariff Board show a considerably smaller number of commodities or classes of commodities having been the subject of reports by the Tariff Board than have been included in these periodical revisions, which may be accounted for by a practice of not making separate reports on all of the commodities investigated immediately before the drafting of a revised schedule. It should be noted that these revisions are not necessarily in the nature of general overhaulings, in that the fact that the tariff is being subjected to revision does not open up all the items in the tariff to amendment, the changes apparently being limited to those articles included in the draft revision worked up by the Tariff Board, and on which hearings have presumably been held.

A close view of the activities of the Tariff Board in connection with applications for changes in duties, and of their results in the form of legislation, is afforded by a summary of the past year and a half. From the middle of 1926 to early 1928, the Tariff Board presented reports on approximately sixty commodities or classes of commodities. Parliament has already changed the duties on 42 of them, or over two-

thirds, chiefly in connection with the revision of late 1927. On the remaining 18 there is no record of any change having been ordered, but since not all reports are available in print, the nature of the action recommended by the Board in those cases, if any, could not be definitely learned.

Advantages of Present System as Described by Tariff Board

The advantages of the present arrangement for tariff-making in Australia, as viewed after five years of its operation, are set forth in an interesting paragraph from the Annual Report of the Tariff Board for 1927.

> The decision of Parliament as expressed in the Tariff Board Act, that the necessity for new, increased, or reduced duties shall be inquired into by the Tariff Board at a public inquiry, and upon oath, has in the opinion of the Board had beneficial results. No longer are applicants able to prepare an unchallenged case for an increase in duty, with the hope of obtaining by means of *ex parte* statements of the facts sufficient support in the House to achieve their object. At an inquiry before the Tariff Board, the arguments in favour of the duty must be fully disclosed, and not only are they weighed by the Board, but opposing parties have the opportunity of hearing the evidence on which the request is based and therefore of rebutting any statements made which are not in accordance with fact, or which may be capable of a very different interpretation from that placed upon them by the applicants. The parties seeking further protection have also to justify their application to the Board on economic grounds, in the interest of the community as of themselves. By this means, Parliament has succeeded, in the opinion of the Tariff Board, in eliminating some opportunities for the abuse of the protectionist system.

Consideration for Interests of Consumers

An exceptional aspect of the investigations by the Australian Tariff Board appears to be the consideration that is declared to be given to the interest of consumers. While there are usually no advocates present at hearings on behalf of the general public, the Board points out that, in its cross-examination of witnesses, it constantly seeks to ascertain how increases in the duties on the products of one industry would affect other industries using those products as their materials, or what the effect of duty increases would be upon prices to the public. The voluntary undertakings before the Board by the representatives of various industries applying for increased duties, that prices would not be increased to the consumer because of the enhanced protection requested, have probably been made in the sensing of the importance that the Board attaches to the consumers' interest. The reports of the Tariff Board carry a record of the Board having taken account of the argument that the granting of particular requests for higher duties would penalize the purchasers with small incomes, by forcing them either to purchase articles at prices beyond their means or to do without. In at least one connection, the Board rebuked the advocates of an increase for their general condemnation of the cheaper imported products as "inferior rubbish" and "a menace to the purchaser," rather taking the view that the lower-grade articles may be quite desirable for their purpose, as "simply illustrative of the bringing of modern inventions within the reach of the masses."

The consideration for the consumers of protected products in the country is given official cognizance in the inclusion in the law, among the subjects which the Minister is required to refer to the Board for inquiry, of any complaints that a manufacturer is taking an undue advantage of the protection afforded him by the tariff, through action result-

ing in unusually high prices to the consumer for his goods, or acting in restraint of trade to the detriment of the public. If the Board finds upon inquiry that such complaint is justified, it may recommend that the duty on the goods involved be reduced or abolished, although it is instructed to consider carefully before making such recommendations the conditions obtaining in the industry as a whole. The available records do not show whether any such formal complaints have in practice been made or acted upon.

ADMINISTRATION OF TARIFF CONCESSIONS UNDER "BY-LAW ITEMS"

Mention has been made of the device of admission under "By-law decisions" in Australia, as an alternative to changes in the statutory duties. Parliament has written into the tariff schedule a number of what are known as "By-law Items," under which certain classes of goods can be admitted under lower or complete waiver of duties, upon the ruling of the Minister for Trade and Customs that a particular shipment is to be classified under one of the established "By-law Items." The object is to relieve individual importations from the burden of the regular duties when the goods in question are not in Australia. The principal classes of goods provided for by By-law Items are machinery and materials for use in its manufacturing, commodities essential to primary producers (agricultural or mining), and also appliances and articles essential to the health and safety of the community, or those designed to encourage education, art and culture, or when considered necessary to the public utilities.

Goods are admitted under "By-law Items" only under very definite conditions. In the first place, care is taken to ensure that the foreign products in question do not compete with similar goods made in Australia. Moreover, in case of articles capable of diversion to several purposes, the importer must furnish security that the goods will be used for the particular purpose for which they are admitted at concessional rates. Furthermore, in granting admission under By-laws for one shipment of particular machinery desired for use in new industries, which is not listed on the standing By-laws (and to which the Australian manufacturers have offered no objection), it is required that the importer give a written undertaking to make the machinery available for inspection by Australian engineers, with a view to the possible manufacture of future machines of that type in the country. On the other hand, provision is made whereby a By-law provision may be withdrawn. For instance, textile-working machinery and mechanic's tools are, in general, now regularly admitted at concession rates under a standing By-law, but as soon as Australian manufacturers are making any of the machines or tools in question, the article may be removed from the By-law, if investigation by the Australian Board of Trade and Customs finds the claim of the domestic producer to be justified, and thereafter it is subject to the full statutory rate of duty.

In these cases of application for admission under By-law, the Minister takes action only after investigation and report by the Tariff Board. The number of applications for by-law concessions dealt with by the Tariff Board is quite large, amounting to 730 during the fiscal year 1926, 861 during 1927, and 717 during 1928. Of these applications about 60 per cent have been recommended for approval, and Ministerial orders issued accordingly.

OPERATION OF "DEFERRED DUTIES" ARRANGEMENT

In addition to the operative duties currently enforced in Australia, there are quite a number of what are known as "deferred duties." These have received Parliamentary approval for insertion in the tariff schedule "in order that certain industries which may have been more or less established in the Commonwealth, but which are not in a position to meet a reasonable proportion of the requirements of Australia, may be assured of a reasonable measure of protection at such time as their output merits the imposition of a duty." While a date is fixed in the act to which such duties are deferred, they are not necessarily brought into operation on such dates. If the Tariff Board certifies to the Minister that the goods in question will not be produced in Australia in reasonable quantities and of a sufficient quality by the date specified in the schedule, the Minister may defer the duty from time to time until the Tariff Board is ready to recommend its imposition. During 1926 the Tariff Board dealt with 47 cases of deferred duties, during 1927 with 36 such cases, and during 1928 with 39 cases. In the majority of these instances, the Board reported back "that the industry concerned has not made sufficient progress as to warrant imposition of these duties on the community," and the date of application of these duties was further suspended.

BROAD SCOPE OF ANTI-DUMPING PROVISIONS

At the same time that the Australian Government is ready to postpone the application of deferred duties when the industry concerned has not yet reached the stage of meriting it, by their tests, it is zealous in endeavoring to ensure the effectiveness of such duties as are in the operative schedule, particularly against their being evaded or nullified through the dumping of foreign goods on the Australian market. Such vigilance is quite understandable in countries like Australia, where the duties are so largely *ad valorem* in form, and protective in motive. The details of the anti-dumping provision,—under what is known as the "Industries Preservation Act"—need not be gone into here. In general, it is on the same lines as the similar provision of the United States and Canada, namely, that when inquiry finds dumping is taking place, and that such dumping operates to the detriment of Australian industry, offsetting duties may be imposed. But the range of situations which, under Australian law, are considered as dumping, and liable to the imposition of additional duties, is much broader than is provided by either Canadian or American law.

Broadly, there are two classes of cases in which dumping duties may be imposed in Australia: The first covers cases where the goods of a class or kind manufactured in Australia are sold in that country at prices less than the "fair market value" in the country of origin at time of shipment; or are sold to an importer at less than a "reasonable price" (defined as cost of production plus an addition not exceeding 20 per cent plus f.o.b. charges); or are consigned to Australia for sale under similar conditions; or are carried to Australia at unusually low freight rates because of shipping subsidies, ballast rates, or other unusual allowances. The second broad type of dumping duty involves imports from a country where the exchange value of the currency had depreciated and, by reason of that fact, are sold to an importer in Australia at prices detrimental to the Australian industry or to an exporting industry in the United Kingdom.

The application of dumping duties is of that class which the law provides that the Minister of Customs can take no action except after inquiry and report by the Tariff Board. The Board has conducted a great many investigations each year under the "Industries Preservation Act," and the number of applications has totaled as many as 200 in one year. In the majority of the applications for dumping duties, the Board has not found that the circumstances warranted a favorable recommendation. Several hundred recommendations have, however, been presented during the six years that the Board has been in operation, and it is understood that the Minister has almost invariably acted upon the recommendations of the Board in these matters. While during the earlier years a large part of the gazettals for dumping duties involved goods from countries of Europe with depreciated currencies, they have been applied at various times to goods from practically every important country, including the United Kingdom and South Africa as well as the United States.

Function of Board in Connection with Preferential Duties

The last important auxiliary task of the Tariff Board earlier noted was the consideration of the proposals for tariff reciprocity with the other parts of the British Empire or with foreign countries. Arrangements of this character with New Zealand and with Canada have been worked out by the Tariff Board, and subsequently adopted and placed in operation, whereby the countries granted to each other the benefit of the reduced duties of their preferential or intermediate columns on selected lists of commodities. It was also following a report of the Tariff Board, that Australia imposed more exacting conditions as to the total cost which had to consist of the labor or materials of the United Kingdom or other British area in order for the products to be entitled to the reduced preferential import duties. Thus far, Australia has made no tariff agreements with any countries outside the British Empire, all of whom—as well as some of the British areas—are now subject to the general duties of the Australian schedule.

Reports of Board on Broad Aspects of Tariff and Industrial Policy

It will be recalled that the Tariff Board is authorized on its own initiative to consider questions of "the general effect of the working of the customs tariff in relation to the primary and the secondary industries of the Commonwealth," "the fiscal and industrial effects of the customs laws," as well as "any other matter in any way affecting the encouragement of the primary or secondary industries in relation to the tariff." Apparently the Australian legislature intended that the Tariff Board shall serve as an advisory body on the whole tariff problem, in its broadest aspects, as well as an organization to examine specific claims and recommend particular rates. The annual reports of the Australian Tariff Board for several years past show that it has been giving earnest consideration to certain problems that are not immediately related to the process of tariff-making, but suggest the broad scope of useful service which such a body can render to a nation when invested with sufficient authority and charged with viewing the tariff problem in a broad national way.

In the first place, the Tariff Board has apparently charged itself with keeping in intimate touch with the conditions of the various industries,

by frequent visits to plants and producing areas. In considering an application for an increased duty upon a given product, its examination is focused upon the industry concerned instead of simply the particular article on which the duty question is raised. In commenting upon the general conditions of an industry, the Board endeavors to regard the situation broadly, with a view to the long-time possibilities of economic progress of the country through the particular industry, and also of the other national interests beyond those of the immediate producers.

Moreover, the Australian Tariff Board has not hesitated to point out what it terms the "abuses of protection," even when that constituted a reflection upon the tariff increases recommended in earlier years. Alarmed by the large number of applications for increased duties coming to the Board from industries which they declare already enjoy a very considerable measure of protection in the form of "duties considered adequate a few years ago, but now claimed to be quite insufficient" to meet destructive competition from abroad, the Board has issued warnings of a basic character. It is much impressed with the relatively high and undiminishing cost of production in Australia, during a period when production costs in other countries are going down, and declares that the situation cannot be met by simply higher import duties. It is impressed with the fact that increased duties are often asked in order to shelter industries working with obsolete machinery and methods, to maintain a plan of production that has been out-dated by recent developments in technology, or to protect prices inflated by excessive costs of distribution and large margins of profit. The Board has taken particular occasion to call attention to the danger from the benefits of increased duties being nullified, so far as the productive progress of the nation is concerned, by the action of trade unions in promptly lodging claims with the Arbitration Courts for increased wages, with the result that the manufacturers find it necessary to ask for further increase of duties, thus forcing an ever-rising spiral in the costs of production and prices which, it believes, endanger the healthy progress of the whole industrial system of the country.

While eager to do all possible to support the primary industries of the Commonwealth and to encourage the healthy development of secondary or manufacturing industries, the Tariff Board has raised the question whether the cost involved in some of the measures of governmental assistance asked is not too great a burden upon the nation. It calls attention to the fact that a country like Australia, which needs to depend upon foreign markets for the disposal of a large part of its primary products, cannot afford to increase its production costs much beyond those in competing countries. The members of the Board have felt it their duty to place before Parliament, and the nation, the basic question whether the necessity for selling a large part of the primary output of the country in outside markets at world prices, and of buying manufactured articles, whether obtained from at home or abroad, at prices inflated by an unduly-high tariff, may not ultimately lead to such an increase in the cost of equipment for production and in the cost of living as to force a curtailment of the general standard of living of the people of Australia.

The Notable Case of Wire Netting

An interesting practical illustration of the working out of this broad con-

ception of a tariff board is afforded by the case of wire netting.[9] It is stated that among the first inquiries undertaken by the Board at the request of the Minister was one into the position of primary producers. Starting with this broad question of the needs of agriculture in relation to the tariff, rather than with a duty proposal on a specific commodity, the Board found that among the most urgent needs was a supply of wire netting, which is largely used in rural districts of Australia as a means of protecting properties against the ravages of rabbits and wild dogs. It was found that the total output of Australian plants was wholly insufficient to meet the requirements, so that large quantities had to be imported which were paying the rather substantial existing duties. On its own initiative, the Board reported to the Minister that it was advisable to place wire netting and other articles of similar importance on the free list, and to substitute for the duties a bounty to Australian manufacturers.

The Government accepted these recommendations, and a plan giving effect to them passed Parliament in 1922, making the highest duty to be levied on wire netting from any source 10 per cent, and waiving the duty entirely on that product when coming from Great Britain. In less than two years, however, the Tariff Board recommended that special anti-dumping duties be imposed on wire netting of British origin, because it was found that the product was being sold by manufacturers in Great Britain for export to Australia at prices considerably below the fair market value in England. Apparently, while ready to recommend a considerable measure of relief to the farmer through moderation of the tariff on an important farm material, the Tariff Board still felt it a measure of justice to the domestic producers of the product to protect them from the unfair competition of imports at dumping prices, even when coming from England.

It is difficult for the most objective student to withhold an expression of admiration for a governmental organization which endeavors to view the economic scene of its country thus broadly, and to deal justly with all elements in the country.

CONCLUSION

General Observations from British and Dominion Experience

Reflecting upon the methods of tariff-making in Great Britain, Canada, and Australia which have just been sketched in some detail, a number of interesting features stand out, found in one or more of these countries, that seem worth special consideration. Doubtless there are disadvantages or doubtful aspects about a number of them, and some of them may not be entirely adaptable to the conditions and established governmental organization of other countries. Moreover, in focusing attention upon particular features observed in the tariff-making methods of these areas, the writer does not mean to imply that he is necessarily endorsing them as they stand, or that he is unaware of the divergencies from the intended mode of operation that may have been actually resorted to in the practical working out of the tariff-

[9] My information in this case is drawn largely from the article by Professor R. C. Mills in the "Economic Record" for May, 1927, earlier mentioned.

making process in these countries. However, to students of tariff problems in countries where the present mechanism is not regarded as entirely satisfactory, a recapitulation of the salient features observed in the experiences of these major British areas may not be without some suggestive value, at least as a basis for further study and practical consideration.

No Tariff Action Without Prior Investigation by a Tariff Board or Committee Independent of the Legislature

The growing tendency to subject the claims of applicants for tariff changes to the examination by a specially constituted body of tariff experts finds perhaps its greatest development in the Australian system, where any question as to the necessity for new, increased, or reduced duties must be referred to the Tariff Board, and no action may be taken with respect to such matters without a report and recommendation from the Tariff Board. It follows, as a necessary corollary from this principle, that no new articles other than those reported on can be added to the tariff bill when it comes up for consideration by the legislature. Otherwise, the advantage of requiring prior examination by the Tariff Board is nullified.

The readiness to delegate the preliminary work in the building of tariff measures to a special body is probably to be accounted for by a growing feeling, on the part of legislatures, that the scrutiny of the multitude of conflicting sets of claims involved is a task they would rather be relieved of. The sifting of *ex parte* evidence affecting a great range and variety of products seems to be increasingly recognized as essentially a task for a body of experts, who are to be more or less removed from an atmosphere dominated by political considerations. This arrangement also spares the members of the legislature from the pressure of special claims, of unknown or uneven merit, to which popular representatives are naturally subject, since all such claims can be gracefully and automatically referred for examination to the special body established for the purpose, before any action is called for.

Enunciation by the Party in Power of a General and Consistent Tariff Policy as a Guide for the Tariff Board

While in the particular areas studied that policy is enunciated by the Prime Minister or by the Minister of Finance, rather than by the legislature, the operation of such a plan does not appear to be necessarily limited to countries maintaining the system of responsible Cabinet Government characteristic of the British areas. The plan might be equally workable under a scheme of governmental organization where the Cabinet members are the personal advisers of the Executive rather than the leaders of the majority in the legislature. In such cases, the enunciation of the tariff policy and criterion by which the Tariff Board is to be guided could be made by the dominant party in the legislature, acting in its accustomed manner, or such a policy might well be the joint product of consultation between the legislative and executive branches of the Government.

The advantages that have been claimed for this method of operation in the countries where tried are essentially three:

(a) It makes possible the consideration of tariff claims from the viewpoint of a broad national policy, rather than having a tariff revision consist of an aggregation of special and unrelated claims for protection;

(b) It makes possible the building of a well-balanced as well as consistent tariff structure, that does justice to the different elements within the country; and

(c) It reduces materially the "log-rolling" that seems almost unavoidably incident to the building of a tariff by a political body.

Tariff Boards with Personnel, Criteria, and Authority That Make for Successful Carrying Out of the General Policy

Several interesting features will be observed in these respects in the British areas studied. The Tariff Boards or Committees are usually small bodies made up of three to five members. Evenly divided opinions are avoided either through having an odd number of members or, in the case of the four members of Australia, by giving the Chairman a casting vote in the case of a tie, as well as a deliberative vote. The members are usually selected to represent not so much political parties as the different tariff positions normally associated with the industrial, commercial, or consuming elements of the population which they represent. The Board is often headed by a person recognized as holding broad national views, to serve somewhat in the capacity of a moderator.

The boards or committees are instructed to guide themselves by the broad general policy of the administration. They are not obliged to carry on their work by a rigid and detailed criterion, which by its nature makes for delay in the handling of cases; nor to work within strict technical lines, which may make it difficult for a tariff investigating body to function at all in many cases where equity and general policy call for action. The boards or committees are required to present a brief, authoritative summary of their findings as to the facts and interests involved, and are authorized to recommend the rates of duty they believe warranted. The Executive, cabinet members, or legislature—whoever drafts the actual bill or makes the final judgment—is thus relieved of the necessity of studying the entire crude mass of conflicting partisan evidence, or of choosing between several alternative courses of action that may be indicated from the report of a purely fact-finding body. While the recommendations of the tariff boards are subject to review by a Minister or the entire Cabinet, who may have it within their discretion to judge that certain cases merit no action whatever, they are finally subject to Parliamentary or legislative consideration and vote before they become permanent law. Such delegation of authority as there appear involved in this type of tariff-making thus appears to be only a delegation in the preliminaries, with the final decision resting with the selected representatives of the people from the different parts and elements of the country.

Prompt publication of the findings and recommendations of the tariff investigating bodies is called for in two of these three countries. It is apparently regarded as an essential part of the general plan that the legislature should have a balanced and well-digested basis for its final decisions, at the same time that the country is afforded the valuable safeguard of publicity that tariff changes ordered are warranted by the findings of the investigations.

It is also of some significance that the Tariff Board of at least one of the areas studied has definitely declared against the participation of lawyers or other professional advocates, as impeding the progress of investigations without contributing to the essential objective of first-hand fact-finding.

Tariff Revision Beyond Urgent Minor Changes Usually a Once-a-Year Matter

The practice of introducing all tariff changes in connection with the Annual Budget, or of accumulating the reports of the tariff investigating body until the situation warrants a general more or less comprehensive revision, appears to retain most of the advantages of having the assistance of a tariff-investigating body, without introducing that feature that is most disturbing to business, namely, instability, arising from the fear of tariff changes at any time or on commodities where changes may not have been expected. Between annual tariff changes or periodical revisions, producers and traders can plan and proceed with confidence. Moreover, since this method of operation implies that no tariff action is taken on a commodity without prior tariff board investigation, it eliminates the possible ordering or enactment of tariff changes on articles where there had not been prior investigation, with the usually attendant public notice and opportunity for representations by all concerned.

Consideration of Consuming Interests

In two of the three areas studied, there is a distinct provision in the instructions to the tariff board or committee to give consideration to the possibly injurious effect upon consumers or upon industries using the given product. In Australia, the consideration of complaints that a manufacturer is taking undue advantage of the protection accorded him by the tariff is made one of the distinct tasks with which the Tariff Board is charged. Upon proof of the abuse of protective duties, through the charging of unnecessarily high prices or acting in restraint of trade to the detriment of the public, the Board is authorized to recommend that the duty on the goods involved be reduced or abolished.

Limitation of Protection to Efficient and Appropriate Industries

In at least two of these major British areas, the tariff investigating bodies are required to satisfy themselves, as one of the conditions of recommending an increased duty, that the industry concerned is carried on with reasonable efficiency and economy; and consideration is also given to the question whether the industry concerned is appropriate to the conditions of the country and capable of healthy development.

Cases have not been infrequent where the tariff body in one of these countries, upon finding that the applicant industry was working with antiquated equipment, or was so organized or managed as to show excessive costs or unduly low production, has reported unfavorably upon the proposal to grant the higher duties sought. In fact, analyses of production costs have in some cases had their greatest value as an indication of relative degree of efficiency, and of the desirability of fostering the expansion of a given industry under the existing conditions.

The thought is summed up in the recent statement by Prime Minister Bruce of Australia, who for a time held also the portfolio of Minister of Commerce and Industry in charge of tariff matters: "The protection of the inefficient is doing a great deal of harm to the competent and efficient industries," and in the same vein is the sober admission by Mr. Bruce that "after ten years of experience, we now know that there are many industries which never should have been started here."

Flexibility in Tariff Adjustments to Changing or Special Conditions of Industry

An interesting device in Australia, as an encouragement to young industries, is that of writing appropriate duties into the tariff act for their products, but of deferring the application of those duties until such time as the Tariff Board is satisfied that the products in question are produced in Australia in reasonable quantities and of a satisfactory quality in the light of the requirements of the country.

Another interesting device of effecting selective protection is that arrangement found in Canada and Australia, whereby reduction or waiver of duty may be granted, without requiring special action by the legislature, for the admission of particular shipments of machinery, equipment, or materials for use in production when precisely similar goods are not obtainable within the country. In many countries the situation often arises where a given *class* of imported machinery or materials properly bears a substantial protective duty to foster domestic production, yet the local plants may not be in a position to supply every requirement for *particular articles* within that class. Through this flexible device, administratively applied, there is thus avoided the working of hardship in unquestionably meritorious cases where the importations are entirely desirable from the national viewpoint.

Significant as an alternative to protective duties, especially adaptable in cases where the domestic production is still limited and a tariff on imports would burden the whole volume of goods consumed, is that afforded by the development of the system of bounties paid by the Government of Australia and, to a smaller extent, of Great Britain, to foster the expansion of production or of exportation of selected lines of goods. While a bounty carries odium from certain viewpoints, and naturally needs to be resorted to very sparingly, the use of bounties appears to be built upon the reasoning that this method of fostering industry imposes less of a burden upon the whole consuming population, and has the additional advantage of being terminable after the limited experimental or fostering period for which established.

Authority for Investigations upon the Initiative of the Tariff Board

Granting a tariff advisory body the authority to institute investigations upon its own motion appears to have had the interesting result, in Australia, of encouraging the Tariff Board to undertake basic studies into the current conditions and problems of the industrial development of the country as affected by the working of the tariff and customs law.

The practice of the Board of considering applications for duty changes on specific articles in the light of the general status, limitations and possibilities of the industry as a whole, is rather unique in the making of tariffs, yet obviously desirable. Its keen analysis and courageous presentation of it as regards the "abuses of protection" in Australia, and of the hazards involved in the further spread between production costs in Australia and in competing countries (discussed earlier in this article) is perhaps the most striking illustration of the possible service from granting a tariff investigating body broad advisory scope and authority.

Equally significant, from a positive viewpoint, is the analysis by the Australian Tariff Board of the causes of high costs of production and slow

economic progress of the country, coupled as this is with a series of specific recommendations as to the possible line of attack on the problem of improving the efficiency and competitive ability of Australian industry. Particularly interesting is the emphasis the Board places upon such internal measures of self-help as the installation of more modern machinery and methods, the reduction of distribution costs, the adoption in industry of what has become popularized in the United States under the term "simplified practice," of more moderate wage demands on the part of labor, and greater individual effectiveness—all of these being preferred as alternatives to still higher tariffs or other measures of governmental assistance. And it will be recalled that the general principle of the protective tariff is recognized by all political parties in Australia, and that the Tariff Board regards it as its function to carry out that general policy.

Tariff Making in France

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An examination of the tariff policies of the continental European nations would seem to indicate that they have been devised largely on the assumption that discrimination and inequality are inalienable features of commercial relationship between states. With tariff barriers constructed upon this premise, the next step seems to have been the devising of ways and means either to surmount the walls or to demolish them in sections by mutual agreement. In other words, a system of bargaining tariffs has grown up in Europe whose schedules of rates are based not so much upon the economic needs of the various countries, as upon their value as tentative bases for the negotiation of commercial treaties. A brief survey of tariff history in France shows that France has been an outstanding and consistent exponent of this system.[1]

Tariff History in France

To a certain extent France may trace the beginnings of her strong protectionist policies to the first Napoleon. In order to put into effect his so-called "continental system" Napoleon not only issued his Berlin and Milan decrees prohibiting all intercourse between the countries under his control and Great Britain, but also raised the tariffs on manufactured goods and colonial produce to an extraordinary degree. Although the policy proved itself more disastrous to France than to Great Britain, the Restoration Monarchy, in spite of its evident desire, was unable to depart far from the system of prohibition and high protection. The Tariff Act of 1816 followed the policies of the war period, while the Tariff Act of 1826 extended the scope of protection to such an extent that France began to feel the pinch of foreign retaliation. In fact, serious commercial difficulties developed between France and various European powers, particularly Russia, Prussia, Sweden and the Netherlands. Treaties between France and the United States in 1822 and Great Britain in 1826 indicated that the government was not satisfied with the situation.

The July Monarchy continued the same policy of protection with a few efforts at reciprocal reductions by treaty arrangement, as, for example, the treaty of 1843 with Sardinia and the treaty of 1845 with Belgium. The free trade movement in Great Britain evoked a sufficient response in France to found a Free Trade Association and even to cause the ministry to prepare a new tariff measure looking towards substantial reductions, but the government was overthrown in the course of its discussion. Nevertheless, the sentiment grew during the short period of existence of the Second Republic and came to full fruition in the Second Empire.

Although tariff making in France even before the Revolution was subject

[1] The following may be consulted:
Amé L., *Étude sur les Tarifs de Douane*, 2 vols., Paris, 1876.
Augier, C. and Maraud, A., *La Politique Douanière de la France*, Paris, 1911.
Levasseur, E., *Histoire des Classes Ouvrières et de l'Industrie en France*, 1789–1867, 2 vols.
Ashley, Percy, *Modern Tariff History*, 2nd in 1920.
Ogg, F. A., *Economic Development in Modern Europe*, New York, 1917.

to the States General and afterwards became a legislative function, various laws, particularly the law of the 29th Floreal, year X, the law of 1814, and the law of 1836, gave the ministry certain emergency powers over the regulation of the tariff. Napoleon III was at heart a free trader and he began very promptly a program of drastic reduction of duties by executive decree, culminating in 1856 with a proposal to the legislature to abolish all existing prohibitions and replace them by a scale of *ad valorem* duties. But this suggestion provoked such an outburst of opposition that the government postponed further action.

However, the situation of the Empire as a result of the war with Austria seemed to the Emperor entirely too isolated, and he saw the chance of gaining a friend and possible ally as well as increasing materially the foreign commerce of France by the negotiation of a commercial treaty with Great Britain. A treaty guaranteeing reciprocal most-favored-nation treatment and making substantial reductions in duties was signed January 23, 1860. In order to establish the duties which were not to exceed 30 per cent *ad valorem*, the French government set up a commission to investigate the whole industrial situation, with the result that the rates finally fixed hardly averaged more than 15 per cent. Since treaties did not require the approval of the legislative body, Napoleon proceeded to negotiate similar treaties with a majority of the other European states, thus establishing a conventional tariff on very liberal principles. However, even before the ten-year period of the treaties had expired, the protectionist forces, taking advantage of the fast weakening government, forced the appointment of two commissions to investigate the results of the low tariff régime on French industries.

The Franco-Prussian War changed the whole situation, for now the need for additional revenue was an added inducement to return to the old established principles of protectionism which Napoleon had so arbitrarily discarded. The situation seemed to call for such careful consideration that in 1875 the Ministry of Commerce asked the Chambers of Commerce and other similar bodies to coöperate in establishing the future tariff policy. It should be noted in passing, that the French Chambers of Commerce are official bodies organized by decree of the Minister of Commerce, and although the members are not paid, they are obliged to assist the administration in furtherance of trade relations.[2] The prevailing opinion seemed to be that a tariff revision was essential, with a decided preference evident for specific rather than for *ad valorem* duties, but a difference of opinion was manifest regarding the continuance of the system of commercial treaties, although a majority seemed to favor them, providing the most-favored-nation clause could be eliminated.

THE NEW TARIFF MEASURE

The task of preparing the new tariff measure was given to the Superior Council of Commerce, Agriculture and Industry, which included members of the Chamber of Deputies, presidents of Chambers of Commerce, and representatives of various industries and agriculture. The resulting schedule proposed differed very little from the conventional tariff already existing, but the legislature was more inclined to protection than the government, and committees, in both the Senate and the Chamber, raised the rates very mate-

[2] For an excellent summary of the rôle of these organizations see H. J. Wolfe, *Commercial Organizations in France*, Department of Commerce, Special Agts., Series No. 98.

rially. The ministry stood by the original plan, but was forced to some compromises. The new tariff which became law in May, 1881, practically abolished *ad valorem* rates, raised the duties on manufactured goods about 24 per cent, and left agricultural products, for the most part, unprotected. The government was permitted to make commercial agreements with foreign nations, but under the constitution of the Third Republic such agreements had to be approved by the legislature. Such treaties were soon made, a number of them granting most-favored-nation treatment and a maximum concession of 24 per cent on the general tariff. The net result was a reduction of approximately three-fourths of the duties on the basis of commercial agreements.

During the next decade there was a general depression in agriculture which caused a number of changes in rates to favor the producer, but towards its close there seemed to be a general dissatisfaction with the situation and particularly with the lower rates fixed by treaty arrangements. Again the Superior Council of Commerce sounded out the Chambers of Commerce and other organizations on the subject. An overwhelming number favored the denunciation of existing commercial treaties and a majority were opposed to any renewal. The ministry was unwilling to go this far and proposed as a compromise measure a maximum and minimum set of tariffs, the former to be the regular tariff, while the latter would be reserved to those countries who granted equivalent concessions to France and whose duties were not so high as to seriously impede the importation of French goods. This system of a higher or bargaining schedule and a fixed lower schedule fashioned to the economic needs of the country was accepted and still remains the basis of the French tariff system today.[3]

The new system did not prevent the making of commercial accords, but it indicated in advance to foreign nations the lowest schedule that they could hope for, thus reserving rate making in the hands of parliament instead of surrendering it to the government subject merely to parliamentary approval. In fact, the law of January 11, 1892, limited the government's powers to the imposition of retaliatory rates in special cases where French goods were flagrantly discriminated against, and these measures had to be submitted to the Chambers immediately upon their convening.

MINIMUM RATES TREATIES

The government within the next few years concluded a large number of treaties on the basis of the minimum rates in return for equivalent concessions. All these treaties contained the most-favored-nation clause and were subject to denunciation upon a maximum notice of one or two years time. It should be noted, however, that all that was guaranteed under these treaties was a minimum schedule subject at any time to a revision by the French parliament, therefore, to this extent the tariff system might be called autonomous. Nevertheless, in spite of this effort to keep full control of rates in the hands of parliament, the government, through its treaty making power, soon changed the situation materially. A treaty with Russia, June 5, 1893, made a special rate for mineral oils lower than the minimum scale, and this agreement was to hold till either side denounced it. Another convention of December 29, 1905, stabilized seventeen other products in which Russian

[3] See *Rapport Général par M. Méline, Annales de la Chambre des Députés, Documents Parlementaires,* Vol. XXXIII, p. 542.

commerce was particularly interested.[4]

Other similar conventions followed, notably the Franco-Swiss Convention of October 20, 1906, which opened wider the breach in the autonomous tariff. In fact, as the majority of these arrangements included the most-favored-nation clause treatment, the power of parliament over rates seemed again to have dwindled to that of granting approval to conventional rates, even though the situation was regularized by the passage of laws subsequently making the rates accord with the treaties.

The law of January 11, 1892, did not receive a complete revision till March 2, 1910,[5] when a new law was passed which, while retaining the same general classification, recognized the fact that in practice the minimum rates had been extended to all European countries except Portugal and therefore their protective value had been largely lost. The initiative in the law of 1910 came from the Chamber of Deputies which, through its Customs Committee had begun an extensive investigation in June, 1906. Its first draft was laid before the Chamber July 11, 1908, but the government was unwilling to agree to such a drastic revision upward and a compromise passed the Chamber December 29, 1909. The Senate was even more protectionist than the Chamber and again the government was compelled to make concessions in the direction of higher rates. The new tariff as finally promulgated April 1, 1910, raised both the maximum and minimum rates, although the greatest changes were made in the maximum rates. Throughout the debates it was evident that the successive ministries were most unwilling to shoulder responsibility for the upward revision.[6] Incidentally, the law was even more restrictive of administrative control than its predecessor since it limited the amount of surtaxes that might be levied by decrees in the council of ministers.

Under the new law the existing commercial agreements remained intact, the only change being the substitution of a new rate of schedules for the old. The tariff régime of France, therefore, remained practically unchanged in type or principle from 1892 until the World War.

CHANGES DUE TO WORLD WAR

In practically all countries the exigencies of the war required a general shift of power from the hands of the legislature to the executive, and France was no exception. The first noticeable change in commercial policy came through a series of laws and decrees in 1914 and 1915 interdicting trade with the enemy and forbidding the importation of goods of enemy origin. The government was also permitted to encourage the importation of certain products such as food stuffs by reducing or suspending the duties on them.[7] In 1916 the policy gradually changed from one of restriction to one of prohibition, culminating in the law of May 6, 1916, which gave the government the power by decree to increase customs duties or to prohibit imports entirely. The decree of March 22, 1917, established the principle of restricting importation to those products purchased for the account of the government. This policy was carried out under the supervision of a Committee

[4] E. Néron, *L'Evolution de notre régime douanier*, Revue Politique et Parlementaire, Vol. 136, p. 22, July 10, 1928.

[5] The text of both laws may be found in Tariff Series No. 25, Dept. of Commerce and Labor, Bureau of Manufactures, 1910.

[6] See particularly speech of M. Beauregard, *Annales de la Chambre des Députés, Débats Parlementaires*, Vol. 88, p. 571, June 15, 1909.

[7] Charles Gide, *Effects of the War upon French Economic Life*, Oxford, 1923, p. 101.

on Derogations from the Prohibition of Importation which had been created in the Ministry of Commerce.[8] It should be noted, however, that certain exceptions to this policy were made under the terms of special commercial agreements concluded during the year 1917 by France, as, for example, the Franco-British agreement of August 24, 1917, the Franco-Italian agreement of May 30, 1917, and the Franco-Swiss agreement of December 29, 1917.[9]

Although this policy of prohibition had been instituted essentially as a temporary war time measure, the conditions after the war were such that it seemed necessary to continue it at least for a time. A decree of January 24, 1919, provided for a revision of the lists of prohibited goods but so few changes were made that prohibition still remained in force. However, the ensuing high cost of living compelled the government to liberalize its policy, and by a decree of June 13 the great majority of commodities were taken off the prohibited list.[10]

In the meantime the tariff committee of the Chamber of Deputies in conjunction with the Minister of Commerce had been studying the tariff problems of the country and in response to a strong demand upon the part of industrial groups it recommended the elimination of the most-favored-nation clause. As a first step, all commercial agreements which had not been terminated by the war were denounced on April 23, 1918. Following this, a law of July 29, 1919, put all agreements upon a reciprocity basis, thus indirectly doing away with the most-favored-nation clause. Under the law of January 11, 1892, it will be remembered that only two schedules were available, the maximum and minimum; under the law of 1919 the government was authorized to negotiate agreements for a specified time in which the rates should be intermediate between the maximum and minimum schedules. In other words, in this type of agreement which was to be based upon mutual concessions, the French government merely fixed percentages of reduction upon the general tariff for specified products and these rates were limited solely to the contracting state. It can readily be seen that with the conclusion of various treaties under this system there would soon be a dozen schedules of rates instead of two, thereby adding materially to the complexity of the situation. The result from the standpoint of governmental procedure was to transfer once more the control of rate making to the hands of the cabinet, thereby reducing the parliament to a mere ratifying body.

Coefficient System

This situation was of still greater importance owing to the fact that the power of controlling the tariff rates by decree conferred upon the government by the law of May 6, 1916, was rescinded on December 31, 1922. However, before this stabilization was accomplished, the government had made a number of important changes in the schedules in order to reëstablish the protective effect of the tariff which the general increase of values had materially weakened. The first increase was made by the establishment of *ad valorem* surtaxes ranging from 10 to 40 per cent of the maximum tariff and 5 to 20 per cent of the minimum schedule by a decree dated June 14, 1919.[11] When this was not found satisfactory a new decree dated June 8, 1919, substituted a new system called coefficients of in-

[8] Charles Gide, *Effects of the War upon French Economic Life*, Oxford, 1923, p. 109.

[9] *Ibid.*, pp. 120–127.

[10] O. Delle Donne, *European Tariff Policies Since the World War*, New York, 1928, p. 143.

[11] O. Delle Donne, *op. cit.*, p. 143.

crease whereby the basic rate was retained, but it was joined with a coefficient such as 2, 3.5, or 4 by which it was to be multiplied. That is, a coefficient of 2 doubled the original duty or advanced it 100 per cent, a coefficient of 4 raised it a corresponding amount. An interministerial commission was charged with administering this system and it effected a partial revision of the French tariff by announcements sometimes as often as once a month. This system not only proved itself quite satisfactory as a flexible system of making changes in the rates, but it enabled the French government by adapting the rates to the rapidly changing prices and exchange values to keep up the government's income from customs receipts to a normal level.[12] Under this coefficient system the rates were raised many times and to such an extent that the minimum tariff became twice as high as the pre-war maximum tariff and in some instances the rates were raised over 500 per cent.

However, this power of modifying rates by ministerial decrees ended in December, 1922, and thereafter parliament refused to grant permission to make further increases in this fashion. This stand was taken on the ground that a greater stability was needed and also that a thorough investigation should be begun immediately looking towards a complete revision of the tariff. Although such an investigation was begun, it proceeded very slowly and after three years' work the committee of customs of the Chamber was not yet ready to report. Meanwhile, by the beginning of 1926 the basic value of commodities had changed so much, and the exchange value of the franc had decreased so considerably, that it was found necessary to introduce an emergency measure demanding a 30 per cent increase on all rates then existing upon products brought into France. M. Falcoz, *rapporteur* for this bill, showed in his argument that in 1913 the income from customs duties amounted to about 8 per cent of the value of the commodities imported, and that under the coefficient system existing through 1922, the ratio had remained approximately the same. However, the figures for 1925 showed that the income had dropped to 3⅛ per cent, that is, the protection accorded was two and one-half times inferior to that of 1922.[13] The bill became law under date of April, 1926.

Although it was hoped that this increase might tide the situation over until the bill for general revision should be reported out, the financial situation became so bad that a law of August 3 empowered the government to adjust by decrees with certain limitations, duties, taxes and imposts to the value of the currency, such changes to be submitted to the legislature for approval. Under the authority of this law a decree of August 14, 1926, made a further increase of 30 per cent upon all existing duties.

NEW PROJECT INTRODUCED

In the meantime the governmental commission which had been working on a new project for the past three years, published its findings on March 4, 1927.[14] The tariff committee immediately commenced work upon it and M. Falcoz, the *rapporteur*, made

[12] European Tariff Policies Since the War, U. S. Department of Commerce, *Trade Information Bulletin*, No. 228. See also, article by M. Néron, in the *Journée Industrielle*, November 8, 1921.

[13] *Annales de la Chambre des Députés, Débats Parlementaires*, Vol. 1282, p. 1571, April 2, 1926.

[14] An English translation of the text of the project as submitted to the Chamber may be found in the Tariff Section of the *Board of Trade Journal*, Vol. 118, No. 1580, March 17, 1927.

his report to the Chamber the 25th of March and the tables with the new rates were distributed on May 10. Thus, although it took three years to make the necessary investigations to draw the project, only a few weeks were given to the public, the members of parliament and the commercial groups not consulted to formulate their opinion. When debate started on the bill in the Chamber, considerable opposition developed on the part of the Left, partly because it was claimed that the bill was badly drawn and partly because it was felt that action should be delayed until the results of the Geneva Tariff Conference were available. The rather general fear that the new tariff would increase the cost of living also aided materially the opposition. The government postponed further discussion until July, when the Chamber again showed itself unwilling to adopt the project of general revision. It did, however, by the law of July 27, 1927, authorize the government by decree to modify the rates whenever it seemed essential to conclude commercial agreements urgently needed. The emergency envisaged was a commercial treaty with Germany, an absolute necessity, since the arrangements under the Treaty of Versailles expired January 10, 1925, and subsequent provisional agreements came to an end on June 30, 1927. It might be noted in passing that the proposed new general tariff retained the maximum and minimum rates as well as the intermediary feature. It further increased the control of the government by permitting it by decree to raise or lower rates and even forbid importation completely.[15]

With the failure of the general tariff law to obtain the approval of parliament, the government, under the law of July 27, 1927, proceeded to sign in August 17, 1927, a new commercial treaty with Germany,[16] which envisaged a very considerable modification of the tariff, and within the next fortnight a governmental decree announced a substantial raise in rates upon some 1,700 articles, the new schedule to enter into effect on September 6.[17] The immediate result was a violent protest upon the part of foreign powers who found themselves handicapped seriously in trying to hold their French markets against the privileged status of Germany. The United States was among the first to protest, in fact its *aide mémoire* on the subject reached the French Foreign Office the day after the new rates went into effect. The ensuing correspondence clearly indicated that the United States did not object to the high rates but to the discriminating features. On the other hand, France was perfectly willing to give the United States similar advantages to those conceded to Germany but only upon a reciprocity basis. For in the language of the French government "the prohibitive régime resulting for certain French products from the particularly high tariffs which the United States has in force at present and the moderate rates of the French minimum tariff which offer to American exporters generous possibilities on the French market, cannot be considered as equivalent."[18] But the United States was unable to

[15] An excellent series of articles on the proposed tariff bill may be found in *L'Europe Nouvelle*, No. 484, May 21, 1927.

[16] For text, see *Journal Officiel*, August 31, 1927, p. 9203; or *L'Europe Nouvelle*, September 17, 1927, p. 1231.

[17] *Journal Officiel*, August 31, 1927, p. 9163.

[18] French *Aide Mémoire* of September 15, 1927; text in *Le Temps*, October 4, 1927, also in *European Economic and Political Survey*, Vol. 3, No. 3, Paris, October 15, 1927, p. 73; *Foreign Trade*, Vol. 2, No. 11, November 1927, p. 823; *Advocate of Peace*, Vol. 89, No. 11, November 1927, p. 623.

accept this explanation and insisted that all discrimination was unjustified, nor could it under the present tariff law enter into a reciprocity agreement.[19] But as neither side could afford to engage in a tariff war, a provisional agreement was reached whereby France fixed the same duties on American goods as were paid before the Franco-German agreement, except where they were lower than the minimum duties, and in this case they were liable to the latter. In return, the United States agreed to suppress the customs control exercised in France through its fiscal and tariff agents, and to examine its sanitary regulations and the net costs of French and American production with a view to enlarging its markets under existing laws.

In the case of Switzerland, Belgium, and Italy, France signed new commercial agreements upon a reciprocity basis, but just as was the case in the treaty with Germany, the most-favored-nation clause again appears, although hedged about with certain restrictions. It still remained necessary for the parliament to consider the various changes made in the schedules by the numerous decrees based upon the law of July 27, 1927, and to integrate them as far as possible in a law which should establish with a certain degree of permanency the schedules upon which these treaties were contingent. Beginning early in February, 1928, the various projects for revised schedules were brought before the Chamber, examined by the proper committees, discussed, voted and then sent to the Senate for similar treatment. The whole process, including the signature of the President, was completed by March 2, 1928, and France had made a *de facto* general revision of her tariff laws, although in a piecemeal fashion and wholly upon ministerial initiative.[20]

The bill of March 2, 1928, according to the explanatory memorandum accompanying it was designed to make certain tariff changes resulting from the Franco-German Agreement of August 17, 1927, and to increase the minimum tariff where French industries particularly needed it. It also approved the Franco-Swiss Convention of February, 1928. The law retained the maximum and minimum features, and for goods not mentioned in the new minimum schedule, it still utilized the coefficients of increase. By the wording of Article X, it would seem as though the General Tariff Revision Law was still in the offing and that the present bill was to be regarded merely as a temporary partial revision.

CONCLUSIONS

From this brief study of tariff making in France, certain salient points may permit the drawing of several fairly definite conclusions. In the first place, as far as procedure is concerned, the French parliament seems to a very considerable degree to have delegated its powers to the ministry, which, either by decree or through its treaty making power has changed tariff making from an autonomous system wholly in the hands of the people's representatives, to a conventional system built up by the ministry as necessity seemed to require in the country's relations with other states.

In the second place, considering her tariff from the standpoint of type, France has been one of the leading exponents of the bargaining system of

[19] For an excellent summary of the case, see Foreign Policy Association, *Information Service*, Vol. III, No. 17, October 21, 1927.

[20] An English translation of the text as presented to the French Parliament may be found in the Tariff Section of the Board of Trade Journal. Vol. 120, No. 1630, March 1, 1928; the modifications in the law are given in the issue of March 8.

tariff. Before the war her concessions were for the most part generalized on the basis of the minimum schedule through most-favored-nation treatment, but since the war, the tendency has been to grant specified rates for definite reciprocal concessions, a policy which has tended to make the French tariff a most complex and elaborate system. Furthermore, this bilateral treaty method is the one particularly condemned by the Economic Council of the League of Nations as tending to raise high tariff walls and hinder international economic coöperation.

But perhaps the outstanding features of French tariff making to be noted in its study is its apparent lack of stability, a factor usually regarded as essential in successful tariff making. It must be conceded that the war and the post-bellum difficulties have rendered the situation exceedingly difficult. But even the war and the problems which followed in its wake could hardly be blamed for the almost incalculable number of changes which the French tariff has undergone in the past decade. As a matter of fact, even before the war, in the period 1892–1913, the French parliament voted some thirty laws changing the tariff. However, France is not the only country where it seems impossible to separate technical economic questions from the field of partisan politics, and so long as the two are joined, it will be increasingly difficult to obtain a simple, stable and economically sound tariff system.

Can the Tariff Be Taken Out of Politics?

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IN assigning me the topic "Can the Tariff Be Taken Out of Politics?" the editor of *The Annals* throws upon me the responsibility of expressing opinions rather than presenting conclusions from arrayed facts. But I shall endeavor to trace here briefly some changes which are apparent in the state of public opinion regarding American tariff policies, in the hope that this narrative may throw some light upon the subject both for the reader and the writer.

In the January (1925) *Annals*, I referred to some changes in the attitude of the Republican and the Democratic parties toward this question. Throughout its life the Republican party has held more or less steadily to the doctrine of a highly protective tariff. Its reason for doing so in the beginning was to develop infant industries. Later its leaders advocated high protection to maintain the prosperity of those industries already established and the classes dependent upon them.

The South, the mother of the Democratic party, held and still holds a virtual monopoly of the world's cotton. Her principal resource being a commodity that did not fear import competition and her supplies being largely bought from the outside, the South inclined toward free trade.

Flowing out of the free-trade atmosphere of the agricultural South, the Democratic party's policy became one calling for a tariff for revenue only, and Democratic leaders for many years held that low tariffs were a real stimulant to the freedom of competition. In the last fifteen years the attitude of Democratic party leaders has changed somewhat, and in the last Presidential campaign, the Democrats veered almost over to a protective policy.

In that paper I spoke in general terms of the "agricultural South" and the "industrial North." Some changes have taken place in the attitude of various groups toward the tariff which make it necessary for us now to look at this problem in the light of the gradual urbanization of America. I propose, therefore, to discuss it, not so much as a sectional question as a group or class question, and more particularly as a town versus country problem; for the so-called process of industrialization is really a process of urbanization, and the economic interest of a very large percentage of our urban populations seem to be tied to the interest of the owners of the industrial organizations.

Common Interests of Industrial and Banking Groups

What then has happened? Enjoying a steady growth under a more or less consistent national policy of high protection, industrial producers and urban distributors have grown very strong. With expanding capacity to produce volume on a lower man-power basis, many industries have entered

[1] Mr. Holman wishes it to be understood that the views stated in his article are his personal views, and should not be taken to reflect the official position of any of the agricultural groups with which he is associated as he has not had opportunity to confer with them in connection with the preparation of his manuscript.

the export trade. Coincident with that development has come a general tendency to consolidate ownership by means of purchase or by mergers. This, of course, reflects in part the general trend toward large-scale operations which is manifesting itself in almost every line of business endeavor. The control of these huge combinations is largely centered in a few cities of the country. And so complex is the net work of big business that the groups directing these great industries are also closely tied to some great banks, who are likewise engaged in international operations.

Not only then do the same groups have a desire to find wider foreign markets for the sale of surplus manufactured products, but they are also concerned with the repayment to this country of loans made to foreign countries and to the guaranteeing of returns on the foreign investments of our private capital.

Because of these far-flung business connections, the objectives of the industrial groups seem to be:

1. Cheap raw materials.
2. Low cost of living for wage earners.
3. Maximum consumption of manufactured articles.

The interpretation in terms of tariff of such objectives is high duties on refined products and little or no duties on raw materials.

Urban labor appears to have an interest allied to that of the industrial owners in this program. The banking groups have a similar interest in that they believe that foreign countries and their citizens who may owe us money, can repay more easily by having the privilege of shipping certain types of goods into the United States. Since the banking groups and the industrial groups are now so closely allied, the kind of goods that can come into this country without jeopardizing their productive interests must be limited to raw materials.

With the urbanization of the United States becoming more general, the urban attitude must be considered as a formidable one in relation to the objectives of the agricultural people. For the relative balance as between urban and rural populations has already shifted greatly to the side of the urban, and that trend may continue for some years.

Common Interest of Farmers and Small Townsmen

The farmers and the small town business men who are dependent upon agricultural prosperity have different objectives. Agriculture is largely comprised of raw material industries. The producing units are small and widely diffused. Their owners and operators are unable to effect rapid progress in setting up large-scale processing and distribution. They are particularly unable to work together to control production except in a few limited instances. They produce types of commodities that are more likely to be affected by international prices than are the products of the industrial plants of this country. On the other hand, farmers are using more and more of labor-saving machinery and are gradually forming themselves into coöperative business units, some of which are of a large-scale character, and many of which are becoming articulated.

Evolution of Agricultural Thought

For a long time in the history of our tariff policy a great deal of agricultural thought has been of a free-trade character, especially in the expansion period of land settlement. In that

period a very considerable portion of our farm products was exported, and the general view has prevailed that tariffs are not particularly effective on commodities where a nation is on an export basis. To this view I do not entirely subscribe but present it as a phase of changing opinion.

Farmers, discovering that they must continue to buy their supplies from industries that were very well protected, began in time to study the question of equalizing the benefits of the tariff by securing such measure of protection as might be possible to them for commodities which they produced. In consequence there has been a growing body of agricultural opinion in favor of protection covering a wide range of agricultural products. This state of mind has been intensified by the rapid increase in recent years of imports of commodities from foreign countries which directly or indirectly compete with the products produced on farms of the United States.

In their studies of their relation to the tariff, however, many agricultural leaders have come to the conclusion that it is desirable to have at least a moderate tariff protection on many articles which they consume because they have long been conscious of the fact that the United States is to be the principal market for their products, and it is necessary for industrial populations to have continuous employment and sustained buying power. Others have been willing for industry in general to have high protection provided commensurate protection was afforded the agricultural products represented by them.

The objectives of the agricultural groups then seem to be:

1. High protection against raw products competing with those produced by them.

2. Cheaper manufactured materials.

3. Maximum consumption of home produced farm products.

The interpretation in terms of tariff of such objectives is high duties on raw and refined products directly or indirectly competing with our agricultural products, and little or no duties on articles consumed by farmers.

CONGRESSMEN REFLECT SHIFTS OF GROUP OPINION

These shifts in group opinion have been reflected in the Congress of the United States by some real shifts of personal attitude of Congressmen.

As the Republican party has grown stronger in the rural districts of this country, its leaders have been inclined to add to the party's program of industrial protection a program of protection for agriculture by means of a tariff. This tendency has made a deep impression upon Democratic leaders who also have been seeking agricultural support. In the last general election about twenty-five Southern Democratic candidates for Congress emphasized the need of protective tariffs on products produced by their constituents. Reflecting also the urban sentiment, leaders of the Democratic party in the cities of the East and North, have practically abandoned low tariff as a party policy. Also many Western Republican Congressmen who have agricultural constituencies have begun to emphasize the idea of equalizing tariff benefits as between the urban and the rural groups.

From these evident changes of personal attitude, one might infer that the tariff as a political issue is ceasing to be as important as it was in the early days of party history. *But the tariff as a political issue has not ceased to be important. It has been in part transferred from party policies to the policies of individual members*

of Congress. To illustrate, let us suppose that a Congressman of either party happens to represent a district whose interests are dominantly industrial. In that case the Congressman will often work diligently for the highest kind of duties he can get to aid his constituents. He will appear before the Committee considering the bill, and if he gets a chance, while the bill is being considered by one of the Houses in "Committee of the whole House," he may speak and may vote for those items. He may also indulge in a little individual vote trading to gain support for his cause.

But suppose he is working for increases on certain items, and the general program of his party will be to vote against the bill as a whole. He will then do some tall figuring. If there is a safe majority assured for the passage of the bill, he will probably absent himself on the final roll call. Then he can with equal sincerity show his constituents that he voted for the items when they were being written into the bill by the House or Senate in Committee of the Whole House on the State of the Union, and he can claim full party allegiance by showing that he was unavoidably absent when the final roll call was taken. But, he may have exchanged a promise to support the entire bill in return for support to get his own commodities adequately protected. In that case he will split with his party and vote with the other side, defending his course "back home" on the grounds that he was getting something good for his own people. In such case his party leaders will be rather lenient, as they probably have similar troubles.

The same line of action would be likely to occur if the Congressman represented an agricultural constituency, who are directly interested in a protective tariff on some agricultural products. In either case there would be many individual exceptions, but this course of action is more or less general in both Houses.

POINTS OF COMPROMISE ON GROUP CONFLICTS

Assuming then that party lines may not be as sharply drawn when the next tariff bill comes up for consideration, let us determine if we can what will be the major issues on which compromise will have to be reached. As I see it, here they are:

1. The extent to which the industrial and the financial groups will be willing to pay import duties on imported raw materials in order to aid the agricultural population to increase its price returns and sustain its buying-power of important manufactured articles.

2. The extent to which the agricultural groups will be willing to allow the industrial groups to have protection on manufactured products and take compensation in a sustained urban buying-power for agricultural products.

In the battle that will soon be raging, groups feeling that they now have sufficient protection will probably ask for higher duties in the hope that they can retain their present advantages. Groups that do not have sufficient protection will make vigorous efforts to improve their position. For example some agricultural organizations will seek to regain a market for approximately 700 million dollars' worth of products of an agricultural nature which now by direct or by indirect competition are taking the place of products grown in this country. And 700 million dollars represents the value of only those products in which those particular organizations are interested.

ATTITUDES OF PRESIDENTIAL CANDIDATES

At this point, let us remind ourselves that the two Presidential candidates disagreed with respect to the tariff being taken out of politics. Governor Smith, evidently having in mind the tendency of Congressmen to trade votes, suggested more Congressional reliance upon the fact-finding work of the United States Tariff Commission with respect to the rates of duties. But he also favored Congressional hearings at which interested parties could state their views. Mr. Hoover held to the position that the tariff is a matter for Congress to determine.

As a matter of fact, for several years the Congress has been doing very much in the way of what Governor Smith proposed. The Tariff Commission has reported regularly to Congress, and public hearings by committees have been held. Also an expert from the Tariff Commission worked continuously with both House and Senate in the preparation of the Tariff Act of 1922.

But neither Mr. Hoover's attitude nor Governor Smith's proposal would take the tariff out of politics. The Hoover attitude implies a continuation of present methods of tariff-making. The Smith proposal would only modify somewhat the political procedure for tariff enactment.

We must not forget that under the Constitution of the United States the right to levy revenue laws is entrusted to Congress. Unless the Constitution were changed—and this does not seem at all likely—Congress must continue to deal with the tariff even though the courts have held that between considerations of the tariff by the Congress, that body may lay down a rule whereby it may authorize certain modifications of the duties by another authority such as the Executive.

In the Tariff Act of 1922 Congress established such a rule; it was Section 315, widely known as the Flexible Tariff Provision. In that section the Congress authorized the President of the United States to make changes in the rates of import duties to the extent of 50 per cent, up or down. But Congress provided that such changes should be ordered only after the United States Tariff Commission had made investigations of comparative costs of production in this country and in whatever might be deemed by the Commission to be the principal country of competition. Two desires seem to have been fused by the inclusion of Section 315 in the Tariff Act of 1922. One set of advocates may have hoped that the partial delegation of authority by the Congress was a step toward taking the tariff out of politics; the other set hoped that the delegation of this authority would permit the Executive to make speedy tariff readjustments.

DEFECTS OF FLEXIBLE TARIFF PROVISION AND PROCEDURE

At this point I am compelled to reiterate, in part at least, the position which I took in my *Annals* paper of 1925. Three years of additional experience with the Flexible Tariff Provision leaves me still unenthusiastic about it; for the handling of cases under the terms of the provision has not been an unqualified success. This may be in part due to the following causes:

1. The comparative cost of production rule under which the Commission does most of its investigations is too limited a rule in its scope. Many reasons other than an intimation of comparative costs may have caused the Congress to determine the rates of duties. But in modifying duties, Con-

gress restricted too much the scope of survey and field of Executive action.

It also gives opportunity for many theoretical debates within the Commission. And it provides a seed of discord between our nation and other nations who object to have the books of their citizens open for examination by our officials.

2. The cost of production rule itself nullifies the theory of a protective tariff since decisions based upon comparative costs of production would place foreign competitors upon an equal basis with those of the United States, whereas the idea of a protective tariff is to reserve our own markets for our own producers.

3. The bi-partisan personnel of the Commission—three Republicans and three Democrats—is not a satisfactory method of selecting the Commission's personnel to handle cases under the Flexible Tariff Provision. The original intent of Congress in establishing the Commission was that it should be merely a research body. Under that intent, a bi-partisan or a non-partisan commission could operate with a greater chance of satisfying the public. But when the Commission is charged with the duty of ascertaining facts, the conclusions from which will be the basis of tariff changes by Executive order, an equal political division of personnel enables representatives of the minority party, whenever they may desire, to block effectually the work of the Commission.

4. After six years of experience in handling cases, the Commission has not been able to accelerate its disposal of them in any material degree. Aside from the extreme difficulty of getting at truly representative costs, the time required for experts to make such investigations, and the time taken by the Commission to digest the results of such investigations, is far too long. From two to three years appears to be about the average length of time that it takes the Commission to dispose of a case. Some cases have been on the docket for over five years. That in itself nullifies an intent of the Flexible Tariff Provision, which was to enable the Executive to make rapid decisions in order to protect the citizens of this country against adversely competitive conditions.

5. As yet the Commission does not seem to have worked out any definite rules of procedure It does not give preference to cases in the order of their docketing. It apparently starts cases at times when the Commission's staff is already overburdened with work; and in instances where labors of the investigators have ceased and cases have gotten into the hands of the Commissioners, there is some reason to believe that, for expediency purposes, minor cases are advanced out of their regular turn, displacing more important cases.

The Commission is placed in an embarrassing position because of (a) the cost of production formula, and (b) the bi-partisan character of its personnel.

SUGGESTIONS TO IMPROVE POLICY AND PROCEDURE

Improvement could be made in the Commission's procedure if Congress should adopt a modification of its present Flexible Tariff policy. For such a program I would recommend:

1. The definite assignment of more responsibility to the Commission so that, within certain limits, its powers would be equal to those exercised by the Interstate Commerce Commission over railroad rates. This would heighten the sense of responsibility to the public felt by each member of the Commission.

2. Abolition of the bi-partisan plan of appointments. There are some who

advocate an attempt to put the Commission on strictly a non-partisan basis. In practical operation, I doubt whether a non-partisan Commission would ever be selected, as each succeeding President would appoint persons so that a majority of the Commission would reflect views in sympathy with his own policies. I am, therefore, tentatively of the opinion that some progress might be made if there were a definite recognition of party responsibility in the personnel of the Commission. Under such conditions, at least, the actions of the Commission would carry out the mandate of the people. The personnel of the Commission would then reflect the interpretation of tariff policies accepted by the leaders of the party which last won at the polls in the Presidential election. Such a plan would include four-year terms, commencing with each Presidential term.

3. The salaries of the Commissioners should be raised so as to widen the field of talent from which its appointees may be selected.

4. The number of Commissioners should be increased. In doing so Congress might well take into consideration a plan whereby the Commission might divide into groups to expedite the handling of cases.

5. Provision should be made to increase the personnel of the Commission's staff. This should tend to accelerate the handling of cases and give opportunity for a greater number of cases to be handled.

6. Congress should instruct the Commission to adopt and publish rules of procedure, and should make it mandatory that interested parties shall have the right, in certain instances, to place on the witness stand investigators of the Commission.

7. Abandonment of the cost of production formula. Certainly if Congress does not abandon the formula, it should so hedge it around with restrictions that it does not become the major determining element in the making of tariff changes. Congress should also clarify its intent on certain important points such as whether the Commission in computing costs of production shall give foreign competitors the advantage of figuring into their production costs the added cost of transportation from foreign points of production to American shores.

8. In lieu of the cost of production rule, there should be substituted a more general consideration of economic conditions with the mandate that the Commission in rendering decisions should give preference to the interests of our producers.

These suggestions for improvement are based upon the assumption that the Flexible Tariff Provision may remain in the next tariff bill, and that Congress will wrestle with the problem of improving the procedure of the Commission. But I am still not convinced that the tariff should be tampered with in the intervals between the enactment of tariff laws.

Agricultural Position

If the Flexible Tariff Provision is to remain in the Act, the best that can be hoped for is a clearer designation of authority and responsibility. Even then we must remember that the suggestion of party responsibility may not greatly help the agricultural position; for the winning party will always be heedful of the dominant voting interest, and in the future both parties will seek the favor of the urban voter. Every time a redistricting bill passes the Congress the percentage of urban representatives in the Lower House becomes greater.

But even though the Lower House

will tend to be more and more an urban body, there will be two Senators for every State. In terms of numbers, the agricultural states are very strong in the Senate. If, therefore, agricultural leaders working for equal tariff benefits, should be disappointed by the action of the Lower House, they may still improve their position when the tariff bill reaches the Senate. So I have not lost faith in the ability of agriculture to protect itself, provided its leaders join forces on the principle of "one for all, and all for one," even though the population of this country should become overwhelmingly urban in certain sections.

From this short and imperfect outline, I conclude that, for some years to come, the tariff will be very much in politics, even though party lines split and individual Congressmen vote according to the interest of their respective constituents.

Can the Tariff Be Made Scientific?

By George Crompton
Worcester, Mass.; author of *The Tariff*, Macmillan, 1927

In the recent campaign, a prominent senator seeking reëlection stated in a newspaper letter that he believed "in a protective tariff that would be equitable to all interests and determined scientifically for the upbuilding of American industries." That he is not alone in his belief in the possibility of a scientific tariff is evidenced by the frequency with which this phrase occurs whenever a discussion of the tariff takes place. Many people in this country are firm in their conviction that a tariff on a scientific basis can be enacted. Upon being questioned, however, it will often be found that they have an exceedingly vague idea as to just how to accomplish this result. But usually, if at all informed on the subject, they will say that the rates should be the difference between the cost in this country and the cost abroad, and, having said this, they believe that in a very definite and easy way, they have settled the whole matter.

At the outset it might be well to point out that "abroad" is a rather inclusive term, that there are a good many other countries besides the United States; but the advocate of the scientific tariff will doubtless say that he meant the lowest cost in any country. He might also, if he is a Republican, add that the rates should be the difference, plus a reasonable profit. Moreover, it will be found that generally what is in his mind is money costs, not labor costs.

Ascertaining Costs

If the rate is to be the difference in costs between similar foreign and domestic products, then the first thing necessary will be to ascertain these costs. Unfortunately this is not the simple matter it is assumed to be. Those engaged in merchandising usually do not find it very difficult to ascertain their costs. Purchasing the articles they sell, they have a definite figure upon which to base these costs. The merchandising classes constitute a large portion of any modern society, and it is probably for this reason that some people do not realize the difficulties attendant upon ascertaining the costs of the products of agriculture, and of the manufacturing and mining industries. There are, to be sure, certain manufactured articles in which it is possible, without much effort, to obtain fairly accurate costs. These are cases where the same article is reproduced over and over again, or, like cloth or paper, is produced in unbroken strips or lengths. Even in these cases, however, there is some difficulty in allocating the various expenses.

Furthermore, cost accountants have found it almost impossible to lay down exact rules for all businesses. The cost of materials, since they are usually purchased for a definite sum, is the least troublesome factor in the problem; the ascertaining of satisfactory labor costs, though generally more difficult, is nevertheless, in the cases of which we are speaking—where goods are produced in large quantities—not impossible. But it is sometimes a difficult thing properly to allocate the other expenses, including the so-called overhead. Just how this should be done, just how much should be included and how much not, is often a matter

of judgment. How much depreciation should be charged, and how much should be allocated to each article? How much should be allowed for the obsolescence of machinery?

The whole problem becomes more involved when one shop or factory manufactures a variety of goods or complicated wares composed of many parts. Then it is difficult to determine the exact amount of labor used in each operation. Furthermore, owing to inventions, improvements in processes, changing standards of living, and changes in fashion, costs are always varying; and because of the Great War and the disturbances consequent upon it, the variation in recent years has been especially marked. The prices of materials used in manufacture change from day to day, and sometimes the changes are of a drastic character. The cost of labor is not constant; improvements in machinery and methods cause, of course, a diminution in this item, and higher general wages have a natural tendency to increase it. Great advance has been made in recent years in this country in cost accounting, but any thorough system is expensive, and many shops cannot afford to install such systems.

Intricate Problems

Difficulties similar to those just mentioned are met in agricultural and mining operations. One of the most intricate of the problems that have to be faced, that which concerns itself with joint products and by-products, is found to a great degree in mining, where two or more metals are often obtained from the same mine, and in agriculture, where wool and mutton are joint products of sheep-raising, and where cotton-seed is a by-product of cotton-raising. It is practically impossible to determine satisfactorily a way to divide costs in the case of joint products and by-products. Moreover the overhead in all enterprises is constantly altering, and varies a good deal with the amount of business done. A still further problem for the investigator of costs arises when he learns that the costs in different factories, farms, and mines in the same district vary, and that the costs in one section of the country are different from those in others. The only solution of both these difficulties caused by variations in costs is, of course, to obtain an average—in some cases not a wholly satisfactory result.

But all the difficulties that the investigator encounters at home pale into insignificance when he extends his inquiries to foreign countries. In the first place, not only do all the difficulties mentioned above reappear, but it may be questioned whether in any of the foreign countries costs are generally ascertained with the thoroughness that they are now in this country. And, even if they were, they are not open to public inspection. Congress can give to any body or any person authority to compel American producers to reveal their costs, and in fact has given such authority to the Tariff Commission; but Congress cannot compel foreign producers to reveal any of their secrets—and foreign producers often consider their costs and all such matters very important secrets. Moreover, as has happened, they may look upon the agents of this government as spies, as men who, while pretending to be interested in the costs of the articles produced, are really interested in the more or less secret processes by which they are produced. But, even when persuaded that this is not the case, it cannot be expected that a European industrialist or a West Indian planter is going to inconvenience himself to help the American Congress to enact a tariff that will possibly increase the

difficulties of disposing of his wares in the United States. Furthermore, realizing that the lower costs he shows, the higher the barrier will probably be between him and his American customers, he may not be above purposely deceiving the investigator. At any rate, consciously or unconsciously, it will be natural for him to exaggerate his costs of production.

Under these circumstances it would seem almost impossible for an American investigator to obtain costs in foreign countries that were of any real value. Nevertheless, by persistent endeavor, by taking advantage of all the information that could be obtained, and by making useful comparisons, a rough approximation of the average costs on some articles in foreign countries have actually been obtained. Of course, nothing approaching scientific accuracy could be secured, but the results, in these cases at least, have undoubtedly been better than mere guesses, and probably better than the information that was formerly obtained from interested sources in this country.

Such as they are, the American investigator now has for some commodities an average cost for this country and average costs for foreign countries. To use the word "scientific" in connection with them would in many cases be unwarranted. Investigations take time, and during that time, costs will have changed; and as they will not necessarily have changed in the same direction in this country as in some foreign country, the difference may be considerably greater or may be decidedly less. Even if the change has been in the same direction, it may have been much greater in one country than in another, and so changed the difference. But even supposing that fairly satisfactory costs, domestic and foreign, have been obtained, and that they have been fairly stationary since they were secured, there are many other things that immediately enter into consideration. Are the foreign goods produced in a neighboring country, say Canada, where the cost of freight to some parts of the United States would be inconsiderable, or are they produced in a distant country? Are the goods of a perishable nature? Are transportation rates high or low? Does the foreign country give export bounties or freight advantages? These and many other factors have to be considered.

DETERMINING PROPER RATES

The advocate of a scientific tariff will undoubtedly readily admit that all these matters should be given due weight in arriving at the proper rates for the different schedules. It is evident, however, that they further complicate the problem. Perhaps some champion of a scientific tariff will say that the whole matter can be simplified by obtaining the American and the foreign prices. A moment's reflection will show that comparative prices would be most unsatisfactory for this purpose. Some prices are low because of keen competition; others are high because of natural or artificial monopoly. Furthermore, because of quality, prestige, or some other circumstance not easily ascertainable, there are many prices for some classes of commodities. Mention has been made of changes in costs; prices vary more, if anything, than costs.

But aside from all this, even supposing that the difference between approximately correct domestic and foreign costs has been obtained, and that all the other factors mentioned above have been considered, what then? Is a tariff to be enacted using these differences throughout as the true measure of the rates in the different schedules? If so, the probable result would be the worst piece of

tariff legislation in history. If this is assumed to be the correct solution of the tariff question, and if it is applied to all articles, the duties in some cases would reach absurd heights. If it is not to be applied to all articles, to what extent is it to be used? Are we, for instance, to protect the production of crude rubber? Would the motorists of this country look calmly on if the price of tires were tripled or quadrupled? A marked increase in price would certainly follow if a tariff were imposed sufficiently high to protect the growing of rubber in this country. If it is to be applied to all articles, and the duties are high enough to cover the difference with a profit, then there will be no importations—a thing which is obviously not intended by anyone.

Those who are enacting a tariff have to consider first the general policy that is to underlie the proposed legislation—whether it is protection, or tariff for revenue with incidental protection, or tariff for revenue only. In reaching a decision the case for and against protection will be considered; and assuming that the decision is favorable to protection, they will undoubtedly have been influenced by the three main arguments for that policy, namely: the defense argument, the infant industries argument, and the vested interests argument. It is for the legislative body to judge whether a particular industry belongs in any of these three categories, and if so, whether it can be protected without unduly raising the price of the product of this industry.

Many other things have to be considered also. Will the raising of a price cause disturbance in other industries equally essential to the safety or general welfare of the country? Is the home producer to have merely competitive equality, or is he to have an advantage in the home market? To all the other items is there to be added a reasonable profit? Will some of the proposed schedules provoke serious retaliation abroad? The legislators must decide what articles are to be put on the free list, and what articles, if any, are to be used for the purpose of obtaining revenue. They will, of course, make a comparison of foreign and domestic costs, as far as they can be learned, for nothing that has been said must be taken as asserting that these costs, even though not scientifically accurate, are not valuable in tariff-making. Besides costs, many other factors should enter into the problem: prices foreign and domestic, foreign legislation as to export bounties, preferential freight rates, imports, exports, the condition of the various domestic industries, the natural resources of the country, its cultural and economic development, its future opportunities, its past tariff legislation, the national characteristics of its people, their genius and bent, their standard of living,[1] the efficiency and skill of all those engaged in production, the desirability or undesirability of certain industries, the desirability or undesirability of certain products, the difference in quality between similar domestic and foreign commodities, the influence of prestige and fashion in acting as a disadvantage to the domestic goods—all these and many other things must be considered by anyone endeavoring to enact, not a scientific, but a helpful and workable, tariff.

They should be considered, and in some measure they have been considered in past tariff legislation in this

[1] The standard of living should not be considered here in the way it is usually and mistakenly regarded. The fear that unless it is protected our high standard of living would be lowered is to some extent unwarranted. It should be considered rather in relation to the consumption of commodities that naturally accompanies such a standard.

and other countries, even though some of them may not have influenced legislation to the extent that they should have. In other words, the making of a tariff is a matter of judgment, in which everything that concerns the economic and social life of the people must be considered.

An editorial writer in the *New York Times* of December 9, 1928, makes the following comment on the general expectation that we are about to have a scientific government:

> The gulf fixed between any given science and some large political achievement is great. The two differ fundamentally in method, as they do in the material dealt with. Science requires limited and definite data. Those of politics are as various as the multitudinous seas. Science depends upon rigid tests, precise experiments, elimination of error, absolute demonstration. In politics everything is fluid and changing and relative.

All this is true, and applies with especial force to tariff-making. Here, as in many other matters, it is not possible, in obtaining the desired result, to use scientific methods: the elements that enter into this problem are not susceptible to exact measurement. No scientific formula can be found that will exactly fit the case in all its aspects. Improvement, of course, is possible, both as to rates and as to the arrangement of schedules. The rates can never be truly scientific, but the form of the tariff may be very nearly so. Improvement in the form has already been effected, and further progress toward an ultimate scientific arrangement of schedules may be expected.

Finally, is a scientific tariff necessary? We have not had scientific tariffs in the past, and as a nation we have thriven. If it be asserted that we have thriven in spite of and not because of our tariffs, then the wonder of our prosperity and wealth, which are astounding the world, simply becomes greater. Europe looks with awe, not unmixed with envy, at the "American Colossus." Is she to be assured that America has been handicapped in her economic progress, that in reality the resources of the United States are of such great extent and value, and the people of this country so industrious and capable that the wealth which America has created in the short period of a hundred years is less than it would have been, had a proper commercial policy been adhered to? Is she to be assured that American prosperity would be far greater if we had had a more scientific tariff? Is not the conclusion inevitable that American tariff legislation, even though not scientific, has been fairly satisfactory and helpful, or that at worst it has not been detrimental to the economic progress of this country?

Farm Relief and the Tariff

By Arthur Capper
United States Senator from Kansas

ONE of the stock arguments against including agriculture in the system of protection to American industries by tariffs which is familiar to everybody, not excepting the farmer, is that tariffs on farm products are futile, because these products are marketed abroad and the world price fixes the price to the producer. In the late presidential campaign, Governor Smith made a characteristic statement on this matter, remarking that the present 42-cent wheat tariff is no more than a gesture and that for all the benefit the farmer received "it might as well be put at $1.42." Governor Smith's irony at the expense of tariffs on farm products is typical of many if not most judgments of Eastern critics on the protective doctrine as applying to agriculture.

Beneficial to Agriculture

In fact, there is no conceivable reason why tariffs, so much desired by other industries and believed to be efficacious in their case, should not be equally beneficial to agriculture, except the reason mentioned—that the farmer sells in the foreign market. If a study of the question shows and to the extent that it shows this differentiation of agriculture from other industries to be misleading, the argument against the claim of the farmer for tariff protection equivalent to that conceded to other industrial interests becomes worthless.

In discussions of agricultural economics it is strange that a single product exerts so great an influence in determining judgments on this question of the protection of farm products. It was so in the debate of the McNary-Haugen plan and is so with regard to tariff protection. The opposition focuses on wheat.

Now it is true of wheat that the United States normally produces a large surplus which must find a market elsewhere and in open competition with the producers in other countries. And it is true that normally the price obtained by the American producer is the foreign price less the cost of getting the product to the buyer. But it is, nevertheless, true that even in the case of wheat the American farmer is benefited by the tariff duty.

How does it happen that when both Canadian and American wheat must seek a foreign market and is subject to the market price in free world competition, there is now, and is usually a wide discrepancy in the Winnipeg and Minneapolis price of wheat, of the same grade?

As has been noted by Secretary of Agriculture Jardine, not only a former president of one of our great agricultural colleges and an agricultural economist, but himself a successful farmer and wheat grower, Canada this year has produced some 550 million bushels of wheat, the larger part hard, red, spring wheat of the highest standing for milling purposes. Yet this year these adjoining markets show a constantly higher American than Canadian price. When no tariff duty existed on wheat, as under the Underwood tariff, this difference was wiped out.

It is evident, therefore, that the wheat tariff is effective in the Minneapolis market, notwithstanding the

fact, which is undisputed, that where a constant surplus production must find a foreign market, that market fixes the price of wheat.

The seeming paradox is explained in part by quality differences. The best milling wheat gets a measure of tariff protection, because there is no considerable surplus for foreign shipment. The home milling market demands it, and will pay at Minneapolis a sufficiently high price for it, to bring it across the tariff barrier, thereby boosting the price on the Minneapolis market. Aside it might be mentioned that the Minneapolis millers are able to "drawback" the tariff on such flour as they ship to Cuba. In contrast to the Minneapolis market it must be admitted also that the Kansas City market is consistently below both the Minneapolis and Winnipeg markets, so that the benefit of the tariff to the Kansas wheat grower is minimized, to say the least.

But the Minneapolis-Winnipeg comparison does illustrate that the general principle, that the foreign market fixes the price of surplus production, does not apply in the case of hard winter wheats sold on the Minneapolis market, where a measure of tariff protection is offered.

Other farm products are more obviously benefited by the protective system, since there is no question in their case of how the price is determined. It is fixed in the American market, whose value to the American farmer cannot be exaggerated. The gross value of all agricultural products varies, but in ordinary years will exceed 12 billion dollars. Our exports of all commodities run from four to five billions in value annually, of which those of agriculture constitute about 42 per cent, or normally, approximately two billion dollars. The remainder of our farm output, 10 billions in value and over, is marketed in the United States. It is by long odds the greatest market on the globe. The farmer wants it protected for his products, as it is protected for all industries asking protection.

American exports of agricultural products are steadily declining relatively to other products and in many items declining in absolute volume. The American market is steadily absorbing a greater proportion of our agricultural output, and Secretary Jardine has significantly stated that

> the time is coming when tariff protection will be more important to agriculture than to industry in this country, since agriculture is becoming less and industry more dependent on foreign markets.

"FREE TRADE" TARIFFS

The home market, in short, tends to become more important to the farmer, as it becomes less so to the manufacturer, and if free trade should in the future become the slogan of any interest in the United States it will not be the slogan of the farmer, but of the industrial interests.

These general statements are supported by the record of experience with "free trade" tariffs, so far as agriculture is concerned, and tariffs that deliberately consider farm products. The history of the Underwood tariff is too recent to be forgotten, a tariff act that gave the farmer free trade, while continuing protective duties, somewhat reduced, on the products of manufactures. Practically all agricultural products were placed on the free list, and subjected to open foreign competition in the American market. The gates were opened wide to the wheat, corn, rye, cattle, sheep, goats, swine, eggs, milk and cream and all important meat products of the world.

Annual imports, under this tariff

act, of foreign agricultural products, aggregated in leading American farm products alone some 700 million dollars in value. Prices to the farmer fell sharply. The bottom fell out of farm prosperity. Under this tariff act the price of wool was lower in Boston than in London, and the record shows that under free trade in wool the Boston price has been consistently below the London price, and contrariwise, under a protective tariff on wool the Boston price has been above that of London. This condition was immediately reflected on the farms, where the number of sheep grown began to decline.

Precisely the same result occurred when the Wilson tariff was enacted, placing wool on the free list, in the late '90's. In the four years that tariff continued in force the number of sheep on American farms fell 22 per cent, to less than 37 million head. In 1927 there were approximately 42 million sheep on American farms, and this number has increased to nearly 45 million in the last year. Against an average value of $1.82 per head under the Wilson act the present value is $10.22 a head. The difference in aggregate value of sheep on the farms, price and number being included, is a gain to the farmer in property of from 67 to 450 million dollars, or close to 400 million increase.

Protection Through Tariff

The farmer is as much benefited by the protective system as the manufacturer, notwithstanding impressions to the contrary. And the farmer himself has not the slightest doubt on the question. At the bottom of the agricultural depression following the World War it was agriculture that appealed to Congress for protection through the tariff. The first tariff action after the war taken by Congress was on the demand of representatives of the farm organizations and was the emergency farm tariff act which raised protective duties generally. Later when the general tariff revision of 1922 occurred, the existing tariff act, the farm organization leaders were consulted. They as well as senators and representatives from the leading agricultural states had an important part in determining the agricultural duties levied. The rates in the agricultural schedules were approved by the farm organization representatives and generally met the views of farmers.

The part played by the protective policy as an issue in the late presidential campaign was too apparent to be misunderstood by politicians of both parties. In his appeals for agriculture's support, Governor Smith completely misjudged the sentiment of American farmers of the West, as in his ridicule of protection as a factor in farm prosperity. While other factors entered into the Western verdict at the polls, the tariff was elemental, and this is confirmed by the post-election attitude of the farm organizations and their representatives, who are now applying to Congress for higher duties upon many agricultural products.

The conference of American agricultural coöperative associations at this time has recommended for increased tariff rates upwards of fifty articles of farm production. The dairy industry is asking an increase of the duty on milk from the existing rate of 2½ cents a gallon to 4 cents, and on cream from 20 to 40 cents, and on butter, 8 to 12 cents. The poultry organizations are asking an increase from 8 to 12 cents a dozen on fresh eggs, from 6 to 15 cents on frozen and from 18 to 45 cents on dried eggs, millions of dozens of which are imported into this market under existing duties. The grain growers are asking

that the 15-cent duty on corn per bushel be increased to 30 cents and that the duties on corn products be raised from 30 to 50 cents a hundredweight. And similarly the growers of cattle, of vegetables, of animal and vegetable oils and other products of the farm.

Possibly those who favor protection to manufacturers and free trade to the farmer understand his situation better than he does, but there can be no question that the American farmer regards himself as a full-fledged American and as entitled to participate on an equality with all other interests in the American policy of protection of the American market.

The Home Market for American Agriculture

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THE home market idea as it relates to agriculture has two aspects, that of excluding foreign agricultural products, and second, that of excluding foreign manufactured products, both in the hope of securing larger domestic consumption of farm products. Let us begin with the first aspect.

Extent of Present Home Market

The total value of all farm products at the farm for the crop year 1927–28 was $12,253,000,000, excluding products fed to livestock and used for seed. The exports, at export prices, for the fiscal year ending June 30, 1928, were $1,816,000,000. Reduced to a common basis of valuation, these exports would equal about 12 per cent of the total. Thus 88 per cent of the production of our farms in 1927–28 found a market at home. About a fifth was consumed by the farm families on the same farms where produced. The imports of agricultural products in the fiscal year 1928 totaled $1,880,000,000, exceeding the exports by $64,000,000. Table I gives comparable data for the preceding six years. Perhaps imports are slowly gaining on exports.

TABLE I—Balance of Imports and Exports of Agricultural Products, United States, 1922–28 (Ending June 30)

Year	Exports (Million Dollars)	Imports (Million Dollars)	Excess of Imports (Million Dollars)
1922	1916	1283	−633
1923	1799	1905	+106
1924	1867	1717	−150
1925	2280	1819	−461
1926	1892	1918	+ 26
1927	1908	1905	− 3
1928	1816	1880	+ 64

Similar data for forest products are needed to complete the picture. The principal item in imports of forest products is rubber, representing $312,300,000 in 1928.

TABLE II—Balance of Imports and Exports of Forest Products, United States, 1922–28 (Ending June 30)

Year	Exports (Million Dollars)	Imports (Million Dollars)	Excess of Imports (Million Dollars)
1922	94	245	151
1923	130	406	276
1924	162	374	212
1925	156	465	309
1926	163	849	686
1927	172	613	441
1928	175	528	353

The data on agricultural imports become more significant if one first removes those products in which we do not compete with other countries, such as silk, coffee, tea, cocoa, spices, bananas, cocoanuts and other foreign nuts, flax, jute, sisal and other foreign fibres, buffalo, kid and other sorts of foreign hides, which in 1928 totaled $933,000,000 as a minimum figure. Table III lists the agricultural imports of the really competing products, making a rough sorting according to the class in which each product more nearly belongs. Obviously no clear line can be drawn. Foreign classes of nuts,

vegetable oils, fruits and vegetables, for example, compete to a greater or less extent with the domestic commodities of somewhat similar type. On the other hand, the domestic production of certain others, such as pineapples, olives, and currants, competes to a very limited extent with that of foreign areas. The classification probably errs on the side of magnifying the competitive element. The total for 1928 of $926,852,000 is to be set over against exports of $1,816,000,000 for the same year that might conceivably have been curtailed for the sake of expanding domestic production for the home market.

Another deduction needs to be made for the imports from our insular possessions and Alaska, which must be interpreted as part of our home market under our existing trade relations. We received $269,478,000 of agricultural products in 1928, and $246,701,000 in 1927. The final figure for competitive agricultural imports for 1928 becomes $647,377,000, which is something like 4 per cent of the value of our domestic production.

POSSIBLE EXPANSION OF THE HOME MARKET

The question now to be answered is: Assuming that expansion of the home market by shutting out some of these $647,377,000 of imports would be desirable, how much can really be accomplished in that direction, presumably by raising tariff duties? An examination of the tariff list reveals only two competitive products which do not now have tariff protection—cotton and hides. All the others—coffee, tea, bananas, silk, sisal, etc., are noncompetitive. There does not appear much room for expansion here. Apparently the end must be obtained mostly by raising the existing tariff rates. But they seem to be rather high already. The ratio of duties collected to values of dutiable agricultural imports is running just under 40 per cent. Nevertheless, we shall not be dismayed,

TABLE III—IMPORTS INTO UNITED STATES 1927 AND 1928, OF COMPETING AGRICULTURAL PRODUCTS

	1927 (Thousand Dollars)	1928 (Thousand Dollars)
Live animals	17,630	26,208
Dairy products	42,100	37,754
Eggs and egg products	7,592	3,710
Hides and skins [1]	57,037	105,465
Meat and meat products	17,636	23,027
Wool	80,613	78,047
Miscellaneous animal products	37,992	36,941
Cotton	37,206	44,803
Fruits [2]	21,972	20,280
Grains and grain products [3]	10,389	14,814
Nuts [4]	27,527	25,081
Oils [5]	63,352	62,055
Oil seeds [6]	44,284	32,810
Seeds	10,351	8,516
Sugar	265,285	245,538
Tobacco	76,672	58,804
Vegetables	38,709	39,185
Miscellaneous vegetable products	16,486	23,804
Total	872,755	926,852

[1] Excluding buffalo, kangaroo and wallaby, deer and elk and goat and kid.

[2] Excluding bananas.

[3] Excluding wheat, imports of which were nearly all for milling in bond.

[4] Excluding brazil nuts and cocoanuts.

[5] Excluding essential and distilled oils, Chinese nut or wood oil, sesame oil and rape oil. All of the vegetable oils are more or less competing, and hence most of them are included even though, like the palm oils, not produced in the United States. Cocoanut oil is taken out in another place.

[6] Excluding castor beans, copra, poppy seed and perilla and sesame seed.

and shall proceed to examine the proposition commodity by commodity.

Cotton.—Let us take up the free list first. We have been importing about 170 million pounds of cotton a year, mostly long staple and mostly from Egypt. A tariff duty of, say 15 cents a pound, would probably shut out most of these imports and cut perhaps $40,000,000 from the imports total. The industries using long staple cotton would probably meet the situation partly by substituting medium staples. If the drawback provision applied, they would still import Egyptian and other long-staple cotton for tires and other products for the foreign market.

Hides.—Hides represent so small a part of the value of an animal that nothing short of an excessive tariff duty upon them would cause any notable increase in cattle raising in this country. Hence we can look for little curtailment of imports in this field. Hides and skins make up 8 per cent of all agricultural imports in 1928, and 22 per cent of the competitive list.

Sugar.—Of the farm products now receiving protection, sugar is the outstanding case, representing 13 per cent of all agricultural imports, and 36 per cent of all the competitive imports. The duties collected on sugar averaged 53 per cent of its value from 1923 to 1927. Nothing short of preposterous tariff duties could change materially the import situation with respect to sugar. The tariff rates were nearly doubled in 1921 and 1922, and yet domestic production has averaged only 58,000 tons more since then than under the 1913 tariff rates, whereas imports have increased by a million tons. There has been some increase in beet sugar production, but it has been nearly all offset by the losses in cane sugar production. Beet sugar production has averaged less in 1925 to 1927 than in the three years previous. The effect of the tariff has been to increase production in Hawaii, Porto Rico and the Philippines rather than in the United States, our imports from these islands averaging a half million tons more in 1925 to 1927 than in the three years previous. The present tariff, assuming that it is fully effective, adds perhaps 60 millions to the gross receipts of sugar producers in our insular possessions, and only 40 millions to the gross receipts of the growers in continental United States; and in excess of 200 millions to the amount paid for sugar by consumers in the United States.

Wool.—In the case of wool, the tariffs amounting to 31 cents per pound scoured content imposed in 1922 have apparently had some effect in expanding domestic production. The number of sheep on farms has increased from around 36 millions in 1922 to probably 44 millions in 1928. The 36 millions, however, was a decline from the 40 to 43 millions which were kept in the period from 1913 to 1920 with no tariff on wool. In the days of the 1907 tariff, of the "indefensible schedule K" of President Taft, the number of sheep ranged from 44 to 45 millions. The production of fleece wool in the United States increased from 223 million pounds to 272 million pounds between 1922 and 1927, and is higher now than at any time since 1911. Our imports of wool have declined from 366 millions in 1922 to 248 millions in 1928. In the same period, however, our consumption of wool seems to have been declining at the rate of 5 to 10 million pounds per year, due largely to substitutions of other clothing materials and probably a greater use of shoddy, both stimulated by the somewhat higher domestic prices of wool.

The increases in the number of sheep in the United States must be interpreted in the light of the fact that an even more pronounced increase has

been taking place in the world at large. The 1927 world flocks were 65 millions or a fifth larger than the average for 1921 to 1925. The usual explanation of this general increase in sheep raising is the high price of mutton that has prevailed ever since 1921. The price of lambs in the Chicago market since 1924 has averaged twice that of the 1910–14 period. Accompanying these increases in number of sheep has been a decline in prices received for wool by producers in the United States from 39 cents a pound in 1923 to 31 cents in 1927. One is, therefore, disposed to conclude that the higher 1922 tariff rates alone have had only a small effect in increasing production of wool in the United States.

There has also been a significant shift in the classes of wool imported. Coarse carpet wool is imported free of duty on the theory that it does not compete with domestic classes of wool, our imports of it coming from the mountainous areas of the United Kingdom, China, India, Palestine and Syria and Argentina. Nevertheless, since the last tariff act went into effect, our imports of carpet wool have ranged around 140 million pounds as compared with about half that in the period from 1913 to 1920. Imports of clothing wool, used in making worsteds and the like, which ranged from 200 to 400 million pounds per year from 1914 to 1921, have declined to an average of 17 millions per year since 1922. The imports of the combing wools, from which our finest clothing is made, have in turn increased from around 15 million pounds per year to 160 million pounds per year. Changes in types of clothing worn have no doubt been a major factor in these shifts. But changes in manufacturing practices have probably figured also. Apparently the mechanics of the present tariff schedule has also played a part in these shifts. This is the first time that the tariff rates have been based wholly on a scoured-content basis. The clothing wools lose much less grease in scouring than do the combing wools.

To complete the account, for reasons not readily apparent, the premium in the Boston market over the London market has apparently been declining, from 41 cents a pound for fine staple wool, scoured, in 1922 and 1923, to around 20 cents in 1926 and 1927. This 20 cents probably means less than a third of this amount in prices to producers for raw unwashed wool.

Higher tariff rates on wool would no doubt stimulate some further increase in production and curtail imports still further. But the evidence all points to only a slight increase that would follow unless the new rates were very high. The duties now imposed equaled 46 per cent of the value of the wool imported in 1927. The stimulus that higher duties would give to the use of silk and especially rayon might easily offset all the increase in the home market. One can therefore look to only a slight possible reduction of the $80,000,000 of imports represented by wool as a result of tariff increases, unless a decrease comes by way of causing rayon to be substituted for wool. Our wool imports are 4 per cent of our total agricultural imports and 10 per cent of the competitive imports.

The tariff rates imposed on live sheep and mutton in 1922 have principally reduced the amount of exchange of these between the United States and Canada, and hence have affected production locally; but they have probably also stimulated the growing of feeder sheep on our ranges. Higher duties might shut out most of the 40,000 head of sheep and three million pounds of mutton now entering the United States and cut a half million dollars from our imports.

Flaxseed.—Another product clearly in the deficit class is flaxseed, of which around 20 million bushels per year have been imported since 1922, roughly a half of the domestic consumption. Raising the duty from 40 to 70 cents per bushel would probably cause the 20 million of bushels to be produced at home and cut off $40,000,000 of imports per year. The present tariff rate is not altogether effective because the cost of transporting flaxseed from Argentina to New York is 7 or 8 cents less than from the producing areas in the United States. The duties collected are only a fifth of the value of the flaxseed imported.

Tobacco.—Our imports of tobacco have averaged about 75 million pounds a year since the war, valued at around $60,000,000. This is mostly cigarette leaf and cigar filler of types not grown in the United States. About $14,-000,000 worth of it in 1927 and 1928 was cigar wrapper, which competes to a considerable extent with wrapper leaf grown in the Connecticut Valley and elsewhere. But the duty on this wrapper leaf is $2.75 per pound, which is more than the import value of it. The duty on the other tobacco imported is 35 cents per pound, which is over half its value. Raising these duties would increase the revenues of the government, but not curtail imports greatly. Much of the imported tobacco is used as blends with domestic types and thus provides a wider market for them. Other import types of tobacco represent luxury consumption of those who will pay the extra price. The same is true of the imports of manufactured tobacco, cigarettes and cigars not included in these figures. Our exports of tobacco are very large, ranging around 500 million pounds per year, besides seven or eight billions of cigarettes, ten millions of cigars, and five million pounds of plug and smoking tobacco. The tobacco acreage has increased a half since 1910–14, along with the increase in consumption. There has been about an equivalent percentage increase in imports.

Eggs.—The imports of shell eggs and of frozen and dried eggs reduced to a shell-egg equivalent have averaged 43 million dozens per year, and our exports, practically all of shell eggs, 28 million dozens per year. All but 350,-000 dozen of the imports are of frozen or dried eggs. The imports represent only about 2 per cent of our domestic production. The small imports of shell eggs are from China and Canada mostly, and those of frozen and dried eggs almost wholly from China. Our exports consist largely of small or pullet eggs to Cuba and Mexico, and the United Kingdom and Canada have been taking about ten million dozens a year recently. Egg freezing has been developing rapidly in the United States, doubling since 1920, so that now 55 per cent of the domestic consumption of frozen eggs, and 40 per cent of both frozen and dried products, is produced in domestic plants. The use of egg products is also developing rapidly. Shell eggs were free of duty under the 1913 Tariff Act, and have had a duty of 8 cents per dozen since 1922. Imports of shell eggs have been almost entirely checked as a result, but exports have been curtailed also. Further duties would check these imports still further, if $80,000 a year of imports is worth legislating about. The Tariff Act of 1922 raised the duty on frozen eggs from 2 to 6 cents per pound, and on dried eggs from 10 to 18 cents per pound. Apparently further duties on frozen eggs still within reason would reduce imports greatly. But a very heavy duty would be required to check the imports of egg powders. The total value of egg imports, however, was only eight millions in 1927.

Dairy products.—In 1927 and 1928, the value of imports of dairy products averaged $40,000,000; and of exports, $17,000,000. But cheese trade accounts for 24 million of the imports and only one million of the exports. The Tariff Act of 1922 raised the duties on foreign cheeses from 20 per cent *ad valorem* to 5 cents per pound. These cheeses mostly come from Italy, Switzerland, Greece and Argentina and are largely bought by our foreign population. Swiss cheese is the only one which meets strong domestic competition. The duty on this has recently been raised to 7½ cents per pound. Still higher duties would curtail the importation of foreign cheese considerably in time, especially as the new types of domestic processed cheese came to take the place of some of them.

Very high duties would reduce the consumption of many of them at once. Imports of butter have averaged only seven million pounds a year, valued at around $3,000,000, since 1924. Since the duty was raised from 8 to 12 cents a pound in 1926, small quantities have dribbled in at crucial points in the market situation from New Zealand, Argentina, Denmark, the United Kingdom and Canada. Still higher duties would stop these dribbles altogether; but they would need to be 20 or 25 cents a pound to do this, because for very short periods prices of butter would rise very high if a domestic shortage developed, oleomargarine being the principal offsetting influence.

The duty on cream and milk could very consistently be raised to twice the present level of 2½ and 20 cents a gallon respectively, and this would have the effect of largely checking the $9,000,000 worth of imports of these commodities, cream mostly, from Canada. The eastern markets would then get more of their cream from Wisconsin and Minnesota. The casein imports of around three millions a year could also be stopped by higher duties. Our exports of dairy products are mostly of condensed and evaporated milk, but from five to eight million pounds of butter are exported annually, mostly to Central and South America.

Beef and Veal.—The United States has been on a net importing basis for beef and veal for several years, but this reflects the influence of a temporary recession in the industry, from which it is already beginning to recover. Even though exports may again exceed imports in a few years, this condition will probably last for only a short time. The foregoing statements, however, must be understood in the light of the information that the excess imports at present principally take the form of feeder cattle, to be fattened in our Corn Belt, shipped in from Canada primarily and Mexico secondarily.

The imports of beef and veal, totaling 50 million pounds in 1928, came mostly from Canada, New Zealand and Australia. (Argentina beef exports are now all going to Europe.) Higher duties would have shut out these imports for the most part, valued at over $6,000,000 in 1928, and also the feeder cattle imported, valued at nearly $20,000,000 in 1928. In 1927 these two items totaled only $10,000,000, which is more nearly normal. Exports of beef from the United States take the form of preserved meat. Higher tariffs on feeder cattle benefit the range cattlemen at the expense of the Corn Belt feeders; but higher duties on beef will compensate the Corn Belt for its losses on this score whenever fresh beef is imported in appreciable quantity.

Pork and Lard.—With exports of pork and pork products totaling over $120,000,000 a year, little importance can be attached to importations valued at $4,766,000 in 1927 and $1,766,000 in 1928 of live hogs from Canada mostly

and consisting largely of feeder pigs. Nevertheless, even these imports could be excluded if desired.

Vegetable Oils.—The total imports of vegetable oils and oil seeds, excluding flaxseed and linseed oil, considered earlier, cocoanut and copra, Chinese wood or nut oil, rape and sesame oil, poppy seed, and perilla and sesame seed, and castor beans, because either non-competitive or produced in the Philippines, were valued at $41,000,000 in 1927 and $31,000,000 in 1928.

This represents a great decline from the imports of the war period and just following, partly the result of a return to normal trade relations in Europe, and partly because of the duties imposed in the Act of 1922. Imports of peanut oil have declined from 154 million pounds in 1919 to 5 million pounds in 1928; of soya-bean oil, from 336 millions in 1918 to 15 millions in 1928; and likewise with most of the minor vegetable oils. Their place has been filled by greatly reduced exports of cotton seed oil and increased shipments of cocoanut oil and copra from the Philippines; and also by the use of more lard and other animal fats in butter and lard substitutes. Our cotton seed oil supply at present barely takes care of our own needs and those of Canada. The remaining imports of the foreign oils, excluding cocoanut oil, are mostly for special uses that require them or can stand the extra cost imposed by the tariff duties. Further duties would increase the use of cocoanut oil and animal fats and decrease the exports of cotton seed oil still further; and they might stimulate the growing of peanuts and soya beans for oil, although, as a matter of fact, the present duties have not had this effect. It is not probable that such higher duties would reduce imports more than 15 or 20 millions more. Too many of the remaining uses are special.

Wheat.—Since 1924 when the tariff on wheat was raised to 42 cents per bushel, the imports of wheat have ranged from 6 to 15 million bushels per year, these imports consisting of spring wheat from Canada. But nearly all of these exports have been for milling in bond for export as flour. The amounts upon which duty has been paid for consumption in the United States have been very small, 1,934,358 bushels in 1925, and less than 200,000 bushels all other years since 1924. The duty collected on wheat in 1927 was only $8,946. In 1923, under the 30 cents tariff, 14,472,000 bushels paid duty, but this was a year of short harvests when the net exports of all wheat except durum and from the Pacific ports was only 51 million bushels.

With a tariff as low as 30 cents, some wheat will be imported any year when the Canadian crop is large or relatively high in protein content and the reverse of these conditions maintains in the United States. With a 42 cents duty, only an occasional carload will enter even under the above conditions, and this will be when the markets in the two countries get out of their usual relation to each other for a few days, as often happens. The year of short crop may not be far distant, however, when the wheat tariff may be more effective than any yet in preserving the home market for wheat. Subtract durum and Pacific coast exports from the rest, and the net exports from the United States range as follows from 1922 to 1926, in millions of bushels: 123, 51, 195, 30, 136.

Other Grains.—The possibilities with respect to expanding grain production generally by raising duties are very limited. If it were thought best to make the poultrymen and dairymen in the Atlantic and Pacific states pay the extra price resulting, the present imports of ordinarily less than a million

bushels of corn could be stopped. It would add little if anything to the price of corn in the Corn Belt. The rye crop has been altogether on an export basis since the war. The United States is upon a net exporting basis for oats, but in certain years when the oat crop has been short in our Eastern states, as in 1923 and 1924, as high as four and three million bushels have paid the duty of 15 cents a pound. In other years, the imports have rarely exceeded 200,000 bushels. Further duties might check the imports of the short years, but would penalize Eastern farmers severely.

Our exports, averaging around 18 million bushels per year, are about half in the form of oatmeal. We import about 30,000 bushels of barley a year and export about that many million bushels. Our imports of rice, mostly from Japan, valued at about $9,000,000 per year, are explained partly by differences in types of rice, but mostly by the fact that parts of the United States are a long way from the rice-growing sections. Counting shipments to Alaska and our other possessions, the United States is upon a net export basis by nearly 20 million bushels per year. Further duties would check the present imports largely and especially give the California rice industry a chance to expand a little.

Buckwheat enters very little into the foreign trade of the United States, our imports being less than 2 per cent of the domestic production, and our exports still less in most years. The duty of 10 cents per hundredweight mostly affects local movements between Canada and the United States in the East. Higher duties could check them altogether if it were deemed desirable.

Hay.—The hay duty of $4.00 per ton since 1922 has undoubtedly curtailed imports from Canada to our eastern deficit areas; but in spite of the tariff, imports have averaged 150,000 tons a year since 1922. Raising the duty would check these imports almost altogether, but the bill would be paid mostly by dairymen in deficit areas who are now becoming the largest users of commercial hay.

Vegetables.—The present duty of 50 cents per bushel on potatoes principally checks importations from Canada, especially in years of short crop in the United States. Higher duties would be still more effective in this respect. Imports have averaged a little over three million bushels per year since 1922, and have ranged from less than half a million to over six. Some of the imports are of early potatoes and seed potatoes.

The imports of onions from Spain and Egypt mostly, valued at around $2,000,000 for the last two years, are of different types from the domestic onions. That they are only to a limited extent competitive is indicated by the fact that they come in in spite of a duty of one cent per pound. A higher duty would check these imports somewhat, by reducing consumption a little, by causing some substitutions of the milder domestic types, and also probably by stimulating efforts to grow the Spanish type of onions in the Southwest.

The tomato tariff of one half cent per pound affects imports from the west coast of Mexico at the very beginning of the season. A higher duty would stimulate greenhouse production in the United States and also production in our farthest Southwest. The imports for the past two years have been valued around $4,000,000.

The other vegetables imported in appreciable quantity are beans and peas. Both are covered by sizable duties. The imports are mostly of different types than the domestic, and higher duties would have only minor effects on production.

Fruits.—The fruits whose production would be stimulated by higher duties within reason are lemons, grapefruit, cherries and grapes, with imports in 1927 totaling something over four millions. All are protected by liberal duties at present. Additional duties on the more tropical fruits—figs, pineapples, olives—would stimulate some additional production, but the extra burden on consumers would probably be out of all proportion to the effect on production.

Nuts.—Our imports in 1927 of competing types of nuts—almonds and English walnuts, pecans and peanuts—were valued at around $19,000,000, mostly walnuts and almonds. The almonds imported are largely of non-domestic types, but higher tariffs would check the imports considerably. The imports of peanuts, classified as a nut in the reports, valued at $2,000,000 per year, are also of non-domestic types from the Orient.

Summary.—The following summary table of possible reductions in imports assumes tariff duties on the foregoing products so high as to be virtually prohibitive, except for those classes or types which are practically non-competitive, or are produced against such odds in the United States that only clearly unreasonable duties would be prohibitive—*e.g.*, hides, sugar, wool. If these reductions were realized, our imports of competitive farm products, taking the imports of 1928 as a basis, would be reduced from $647,000,000 to $422,000,000, and would represent a little less than 3 per cent instead of 4 per cent of our domestic production of farm products. As our population grows, and consumption increases, the domestic production of some of these would increase behind the tariff wall, so that the $225,000,000 would grow; but the $422,000,000 would grow as fast or perhaps faster. For example, our imports of sugar have been increasing at the rate of about $7,000,000 a year. The same increase will occur for many of the import types of hides, tobacco, fruits and nuts. Possible imports of spring wheat in short years may presently modify this situation slightly.

TABLE IV—Possible Reductions in Imports of Farm Products to be Effected by Higher Tariff Duties—Based on the Imports of Year Ending June 30, 1928

Products	Reductions (Million Dollars)
Cotton	42
Hides	10
Sugar	5
Wool, mutton and sheep	20
Flaxseed and linseed oil	40
Tobacco	10
Eggs and products	5
Cheese	12
Cream and milk	8
Casein	3
Beef, veal and cattle	10
Live swine	1
Other oils and oil seeds	20
Grains—rice mostly	11
Hay	1
Potatoes	4
Other vegetables	8
Fruits	5
Nuts	10
	225

Attendant Results

The decision as to the wisdom of curtailing our imports of farm products by $225,000,000 by further tariff duties involves certain other attendant consequences. First of all, it will raise the prices of the list of products in Table IV by varying amounts, representing in the aggregate an addition to the gross receipts of the producers of them within the Continental United States, of possibly as much as $250,-000,000, but probably less than $200,-

000,000; probably nearer 2 than 1 per cent of their present value.[1]

It is difficult enough to determine how much past tariff duties have raised prices, to say nothing about forecasting the effect of proposed duties. Many increases in duties will merely raise prices in certain sections, or certain years or seasons of the year, or on certain grades or classes, so that only a carefully detailed study of all these special circumstances of time, place and condition makes the forecasting of effects of particular increases even approximately sure of success. In the above forecast, which necessarily is based upon far less of such analysis than is desirable, it is hoped that the errors on one commodity will stand a fair chance of being offset by errors on others. The estimates are purposely liberal.

Also this and all the other forecasts following must be interpreted as relative. If changes in the general price level accompany the changes in tariff duties, as some say and others do not, the actual figures will reflect such changes.

The increased cost to the final users of these goods in the United States would possibly be as much as 450 millions, but possibly less than 350 millions. This must be set against the 200 to 250 millions given above. If the additional duties on the raw materials are multiplied greatly between the wholesale and retail market, as seems to be the case with many commodities, even the larger figure will be much too low.

A rough calculation would indicate that farmers will pay between a fourth and a fifth of this amount directly as higher prices of goods purchased. If one wants to think of the increased value of home-produced goods consumed on the farm as higher costs, even the fourth will be too low an estimate.

Now as to the net receipts of agriculture. Besides the 60 to 100 millions of higher cost of goods of farm origin bought by farmers directly, are the higher costs of production resulting from the higher wages, rents and certain other costs that tend to develop rather quickly in the areas where production is expanding. The higher land costs are of course realized as gains in rents and land values by the owners of the land, who are still the farmers themselves on a majority of farms. Before very long, also, the prices of some of the things that farmers buy from cities begin to reflect the higher costs of living and manufacturing and doing business in the city. Apparently they would be felt most in the United States at present in higher middlemen's margins, already unconscionably high principally because of the high levels of wages and rents. The net gain to agriculture from higher prices would therefore be less than the 200 to 250 millions not only by the 60 to 100 millions of higher costs of farm products to other farmers, but by an uncertain amount due to other causes.

Now as to the estimated 225 millions of new product called forth—how much of this is gain to agriculture? First of all, part of it will merely replace other farm products. Part of the new acreage of flax will come out of the spring wheat acreage and that of other small grains. More cream and cheese would mean less pork; more cattle probably fewer hogs and sheep. But undoubtedly a considerable portion of the 225 millions, probably half of it, will represent net agricultural expansion. And upon this net some profits will be made. But not as much as on

[1] This 200 to 250 millions is figured on the basis of the production as estimated to increase in Table III under the influence of the higher rates.

the existing production in most cases, because much of it is production that would have netted a relative loss at the old prices. In the expanding lines, a new no-profit margin will come to be established at which both costs and profits are higher than before. On any lines that contract a bit, the no-profit margin will be lowered, and this will partly offset the other. There surely would be some of the 225 millions left as gain to agriculture to be added to what is left of the possible 200 to 250 millions from higher prices directly. If there is no accompanying increase in the number of farmers, there will result, for a time at least, an appreciable gain in the average income per farm—perhaps as much as $30. If the number of farmers increases, if the new flax and beef cattle are largely produced in areas now out of use, the gain would be noticeably less than $30.

Price Stability

One other attendant circumstance must be especially mentioned because it strikes so close to home market theory, namely, the effect on price fluctuations of farm products. It has long been observed that under the system of commercialized agriculture that has developed, prices of farm products, especially at the farm, fluctuate more widely than formerly. The more commercialized it becomes, the more the fluctuations tend to be. Many farm leaders consider this instability of farm prices the major problem of the day. It is popularly supposed that higher tariffs would tend to correct this instability. Yet both the evidence and the theory is to the contrary. Put up a very high tariff wall and prices at home will rise very high before domestic production catches up and levels them out again. With a moderate tariff, foreign supplies flow in and keep prices from rising to dizzy levels while domestic production is catching up. No doubt the dizzy prices hasten the catching-up process; but they also intensify the price slump following. The popular error on this point arises from focusing attention on the checks and slight temporary recessions in prices which occur just at the point where it pays to import. But these temporary effects are of slight importance compared with the longer ascents and steep declines that occur behind a high tariff wall.

Such a description as the above fits any farm product whose volume is close to domestic consumption, of which we may have either an import or an export balance or the threat of one occasionally. Such a description fits most farm products in the United States—beef and veal, mutton, butter, eggs, spring wheat, rice, cottonseed, potatoes, lemons, oranges, and even flaxseed and medium staple cotton. The 1924 crop of flaxseed was so large that the tariff premium vanished for several months. If the tariff had been 70 cents a bushel, the decline would have been much more severe. Butter is perhaps the outstanding example of the foregoing. A tariff of 8 cents and then 12 cents seems to have kept the price in New York about 5 cents higher as an average than that in London; but the premium has ranged from nothing to over 12 cents. From 1922 to 1924, prices in Denmark on export butter ranged from 30 to 41 cents a pound and in New York prices for a similar grade, from 39 to 55 cents a pound. In 1925 and 1926, prices were about the same in the two markets, sometimes higher in Denmark. Since the 12-cent tariff went into effect, Denmark prices have again been lower, ranging from 32 to 41 cents, as contrasted with a range of 40 to 55 at New York.

For products like hay, oats and corn, which tariff duties affect locally only,

the instability resulting is in local markets only.

For products like wool and sugar, the tariff duty affects price stability very little. Our price tends to be the world price, plus the tariff and transportation costs.

It is not within the province of this paper to analyze the effects of instability of prices. But it should be pointed out that whenever a high tariff premium does stimulate production to the export point, the chances are that the new production will suffer severely in the price slump following, since it is likely to be high-cost production. A tariff rate which approximately offsets the normal comparative advantage of the product in the importing country would not have as disturbing an effect on the domestic price.

There is, of course, another theory as to how a tariff wall may help to stabilize prices—namely, that it may enable the producers to organize some system of control of production behind it, and perhaps even exact a monopoly price. Probably some of our domestic industries have at times and in a measure accomplished this. Possibly a few of our agricultural producer groups may realize such a goal within the next ten years. But if it is to work in agriculture, some way must be found to control the weather or else to reduce the cost of carrying from one year to the next. In the meantime, the exchange of annual weather surpluses between countries is a useful aid to stabilization, if stabilization is desired.

There can be little doubt that the imposition of the additional duties necessary to cut out 225 millions of present imports of farm products would introduce a great deal of additional instability. Prices of potatoes, beef, lemons and several other products would rise to very high levels for short periods if tariff duties were made high enough to keep out all imports.

EXPANDING MANUFACTURING

The method of extending the home market for farm products which has figured most prominently until recently is by protecting domestic manufacturing and giving it a chance to produce all the domestically consumed manufactures. Thus it might be reasoned that if the manufactured goods which are now imported were made at home, the additional people employed in making them would consume a large part of our 1,816 millions of present exports of farm products. Space does not permit us to examine the possibilities of this in detail. As a matter of fact, our agricultural exports would not largely disappear under such a process. We would still export large quantities of cotton, wheat, tobacco and pork and lard, and pretty much as now, considerable quantities of certain other grains and certain fruits, as well as certain dairy products. Our comparative advantage in the production of some of these products is so great that no possible home market for alternative products will pay so well as producing these for export. We shall continue to export others to Canada and Central America because of the advantages of our natural trade position.

If further protection for manufactures gave us more consumers of farm products in cities, the farmers producing many of these supplies would need higher prices than at present before they could afford to shift from export to import lines. Higher tariff duties on these products would accomplish this as fast as the growth of cities made it possible for the tariffs to be effective. But such a program as this could not go very far. The higher prices for food would raise the living costs of

urban labor and hence manufacturer's costs. Higher duties on manufactured goods would raise the cost of living and of production on farms, keep down the number of farmers, and make prices of farm products still higher relatively. A point would soon be reached where manufacturers would be better off with lower costs and lower domestic prices for their products. If prices of farm products were one-sixth higher than now, which they need to be if agriculture is to be on a plane of equity with urban industry, the manufacturers would probably discover that they had already reached the aforesaid point. The exporting manufacturer would suffer severely right from the start of such a program.

Agriculture must not forget in this connection that the mere shifting of population from Europe to the cities of the United States does not increase total food consumption greatly; nor that over two-thirds of the wages of whatever additional city workers accumulated in cities would be spent for other than food, and that at least half of this third spent on food would be absorbed by middleman service and transportation.

It seems clear from the foregoing that urban industry can expand considerably in the home market if prices of domestic farm products can be kept from rising; but these prices must rise before farmers can afford to shift from their present export lines. Tariffs on farm products will be needed to bring about these shifts. Unless prices of farm products do rise, farmers will not be interested in larger domestic consumption. The conclusion is that there is little possibility of gain to agriculture from expanding the home market for manufactured goods, if industry gets the gain from it which it expects; or of gain for industry, if agriculture gets what it must have.

The foregoing discussion purposely omits all reference to the fundamental principal of comparative advantage, which no one has yet successfully disputed, which says that in the aggregate the people of the United States do not gain as much from the higher prices which they get for what they sell as they lose from not being able to buy in the cheapest markets. If producers of a few products can have their prices, and theirs only, raised by duties, they benefit greatly. But if all are protected, they all lose. The propositions above examined involve extending protection as widely as possible. There is even prospect that in the near future devices will be developed for subsidizing the export industries also.

Is the Agricultural Tariff Protective?

By J. Marshall Gersting
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[Editorial Note.—This paper written in the summer of 1928 could not be based on official statistics later than those of 1926.] H. T. C.

IT is the purpose of this paper to investigate the tariff in its relation to agriculture and to try to determine, by different tests, whether or not the present tariff is protective to our vast farming industry.

In order better to discuss the present situation in agriculture with respect to the tariff, a brief historical survey of the past activity in this field is necessary at the outset. According to "The Dictionary of Tariff Information" issued by the United States Tariff Commission in 1924, the first tariff act of the United States, passed in 1789, laid duties on sugar, cheese, hemp, and cotton. And in 1790, the second act placed plums, prunes, oranges, and lemons on the dutiable list. But it was not until the Tariff Act of 1824 that agricultural products received any definite consideration. In all the acts up to that year, there had been duties imposed upon "unenumerated articles" and most of the agricultural products fell in that class (except cotton and wool) and the duty varied from 5 per cent in the Act of 1789 to 15 per cent in the Act of 1816. The absence of duties was, of course, natural since the country was new and its development was primarily agricultural. But in 1824, specific duties were placed upon many agricultural products including bacon, beef, butter, ham, oats, pork, potatoes, wheat, and wheat flour.

Protective Duties

The reason given for these duty impositions was that they were expected to help revive agriculture, which had suffered a considerable depression in the period immediately preceding the passage of the act. In 1828 flax was added to the list of specifically dutiable agricultural products, and in 1842 barley, rye, and corn were placed thereon. But it was not until the close of the century that a complete schedule of protective duties was adopted for the products of agriculture.

In the Tariff Act of 1897 the duty on wool was reimposed after that product had been on the free list since 1894, and this Act of 1897 advanced many of the other duties on agricultural goods. These duties were retained until 1913, for the Act of 1909 made very few changes in the schedule of agricultural rates effected in 1897. The chief changes of the Act of 1913 were the placement of wool, wheat, cattle, flour, meats, eggs, milk, and cream on the free list. Next in order comes the Emergency Tariff Act of 1921, and this act imposed increased duties upon some forty agricultural products in order to try to arrest the post-war decline in the prices of those products. But the deflation was world-wide and could not be stopped by higher import duties alone. The act did have a stabilizing influence upon many products which were facing potential or actual foreign competition (as wool, lemons, cattle, olive oil, etc.) by raising the costs of those competing imports. The Tariff Act of 1922 (otherwise known as the Fordney-McCumber Bill) revised the Act of 1921. In Schedule 7, which is entirely devoted to agricultural products, there appear 320 tariff classifications, 93 of which

are transfers from the free list of the Act of 1913 to the dutiable list in the new act. Virtually all of the remaining rates are higher than they were in the 1909 Act. The general policy of the Act of 1922 was to levy specific rather than *ad valorem* duties so that higher prices tend to lower the duty proportionately. Cotton, bread, hides and skins are the only important commodities produced in the United States that still remain on the free list. From this brief exposition of the past of the agricultural tariff, one fact stands out. This whole problem is of comparatively recent development.

It is entirely possible that the above situation has developed because of the fact that domestic demands for agricultural products have grown faster than the ability to produce them—for every year costs are advancing as the better lands are absorbed and as the farmers are forced to utilize less fertile or less accessible soil. Whatever the cause, the farmers are asking for higher duties for agricultural products as well as for farm relief, feeling that their industry should be protected so that the nation does not become one-sided in its development. However, it is not our purpose here to weigh the arguments advanced by the supporters of each side. Rather are we interested in examining what has already been accomplished—and in trying to determine whether or not the past activity in the field of the agricultural tariff has been effective in extending domestic production, in reducing imports of foreign competitive products, or in raising the domestic price or preventing a further decline thereof.

WHEAT

To turn now to the investigation of particular products, we may select wheat—one which presents several interesting features. In the Act of 1909, wheat was dutiable at 25 cents per bushel. The 1913 Act placed it on the free list, the 1921 Emergency Act contained a 35-cent per bushel duty which was lowered to 30 cents in 1922. On the following page is a table showing the figures for wheat production, imports, exports, and prices.

These figures portray many interesting features. Up to 1913, when wheat carried a duty of 25 cents per bushel, we see production tending to rise while exports did likewise. Imports fluctuated, but seemed to be tending downward. Then in 1913, wheat was put on the free list and remained there until 1921. The abnormality of the war period may explain many of the changes in this period, but production and exports rose while prices soared to new levels. The crash came in 1920–21, and we see it reflected in the table above. Imports increased ten-fold, while prices tumbled from $2.14 to $1.43 and production showed a decline of 130,000,000 bushels. The duty in the Act of 1921 of 35 cents per bushel, was passed in the hope that it would help recovery in this field. Production and exports fell the next year, but not as much as imports. That year witnessed the new rate passed in the 1922 Act. From 1922 to 1925, production and exports were fairly well maintained, while imports fell from their 1921 peak. Prices tended upward.

In 1923 a reversal set in—production fell, as did exports and prices, while imports almost doubled. And that year witnessed an investigation instituted by the Tariff Commission. The Commission studied the costs of production here and in the principal competing foreign source of production—looking to a possible revision of the existing duty rate on wheat in pursuance of the elastic provision of the Act of 1922. This provision states that investigations are to be undertaken by the Com-

TABLE I

Year	Production (Bushels)	Exports Including Flour	Imports Including Flour	Farm Price per Bushel (Cents)
1910–11	635,121,000	69,311,760	1,146,558	88.3
1911–12	621,338,000	79,689,000	3,413,000	87.4
1912–13	730,267,000	142,879,000	1,282,000	76.0
1913–14	763,380,000	145,590,000	2,383,000	79.9
1914–15	891,017,000	332,464,000	715,369	98.6
1915–16	1,025,801,000	243,117,000	7,187,650	91.9
1916–17	636,318,000	203,573,000	24,924,985	160.3
1917–18	636,655,000	132,578,000	31,215,213	200.8
1918–19	921,428,000	287,401,000	11,288,591	204.2
1919–20	967,979,000	219,861,000	5,495,516	214.9
1920–21	833,027,000	365,960,599	57,324,288	143.7
1921–22	814,905,000	279,406,799	17,251,482	92.6
1922–23	867,598,000	221,923,184	19,944,944	100.7
1923–24	797,381,000	156,429,824	28,044,999	92.3
1924–25	862,627,000	258,022,900	6,199,424	129.9
1925–26	669,365,000	108,035,000	15,664,306	119.9
1926–27	832,305,000	175,281,000	....	....

Source: Department of Agriculture Yearbooks for the years covered; also for all the subsequent tables in this paper.

mission when they feel certain that the difference in costs of production between the United States and the principal competing foreign center of production is not equalized by the existing rate of duty. In the wheat investigation undertaken by the Commission, they found the cost difference between wheat grown in the United States and that grown in Canada, the principal competing foreign country, to be 41 cents per bushel. So they recommended a 50 per cent increase in the duty on wheat.

The President did not avail himself of the maximum increase; instead he proclaimed, on March 7, 1924, an increase in the duty on wheat from 30 cents per bushel to 42 cents per bushel—the new rate to become effective in 30 days according to the provisions of the law. In order to make such an increase effective, the duty on flour was also raised from 78 cents per 100 pounds to $1.04—otherwise an increase only in the duty on wheat would have favored the importation of wheat in the form of flour and so would have nullified the wheat duty increase. Since that action was taken by the President, we see, from reference to the table given above, that in 1926–27 our production increased, our exports increased, and while the figures for imports and the price are not as yet available, it is expected the former will decline and the latter either rise or remain at the 1925–26 figure. Subsequent years alone will determine the effectiveness of the present rates, but the wheat growers have been granted the protection afforded by the present law.

Thus we may conclude that the duty on wheat and wheat products is effective in so far as the Tariff Commission and the President are able to make it so. Production is now considerably above the pre-war figures and exports are generally increasing. Imports have fluctuated, but apparently have responded to tariff action by decreasing when the duty was increased. And the

price level since 1921 has remained more stationary than it was in the period from 1915 to 1921.

CORN

In a survey of corn, the leading grain crop of the United States, we find a different situation. The duty on corn in the 1909 Act was set at 15 cents per bushel. In 1913 it was placed on the free list, but the Emergency Act of 1921 reimposed the 15-cent duty and this was retained in 1922. Our corn crop is normally three times that of the rest of the world combined, but only about 20 per cent of the total yield ever enters the channels of trade, the rest being consumed on the farms. Ordinarily only 2 per cent of the crop is exported as corn, but from 7 to 12 per cent is exported in the form of animal products, so it is the export market for these products that influences the price of corn and so its duty. The following table shows the relative insignificance of our corn imports:

TABLE II

Year	Production (Bushels)	Exports (Bushels)	Imports (Bushels)	Price per Bushel (Cents)
1910–11	2,886,260,000	65,615,000	52,000	48.0
1911–12	2,531,488,000	41,797,000	53,000	61.8
1912–13	3,124,746,000	50,780,000	865,000	48.7
1913–14	2,446,998,000	10,726,000	12,290,000	69.1
1914–15	2,672,804,000	50,668,000	9,894,000	64.4
1915–16	2,994,793,000	39,896,000	5,212,000	57.5
1916–17	2,566,927,000	66,753,000	2,269,000	88.9
1917–18	3,065,233,000	49,073,000	3,197,000	127.9
1918–19	2,502,665,000	23,021,000	3,345,000	136.5
1919–20	2,917,450,000	16,707,000	10,281,000	134.5
1920–21	3,208,584,000	66,911,000	5,743,000	67.0
1921–22	3,080,372,000	135,180,000	91,000	42.3
1922–23	2,906,020,000	96,596,000	137,000	65.7
1923–24	3,053,557,000	23,135,000	227,000	72.7
1924–25	2,312,745,000	9,791,000	4,617,000	98.2
1925–26	2,900,581,000	24,782,000	635,000	67.4
1926–27	2,645,031,000	....	....	....

Up to 1913 the table shows that exports were many times imports in quantity and that domestic production was about maintaining itself on the average. But in 1913 corn was placed on the free list, and this caused a tremendous jump in imports and a decline in both production and exports. From 1913 on, domestic production seems to fluctuate more or less, as do exports, while imports from 1914 to 1920 remain considerable. Domestic prices rise to a peak in 1918–19 and then start dropping until the low comes in 1921—the year when the duty on corn was reimposed. Since 1921 production has been quite steady with the exception of the year 1924. Exports show signs of recovery in 1925, and imports, with the sole exception of 1924, are back almost to their pre-war levels. The drop in production in 1924 reflects itself in the price rise, but other than that year, the price of corn since 1922 has been fairly quiet.

Thus, we may say with respect to corn that, even though we are on a firm export basis, the duty has been effective, since at no time in the years under observation have corn imports been

any appreciable percentage of domestic production. And with the exception of the year 1913–14 (when corn went on the free list), our imports have never been greater than our exports—usually the exports are from 4 to 40 times greater than the imports.

OATS AND FLAXSEED

The duty on oats appears to be entirely effective, as is shown by the following table:

TABLE III

Year	Production (Bushels)	Exports (Bushels)	Imports (Bushels)	Price per Bushel (Cents)
1919	1,184,000,000	43,435,000	6,044,000	70.4
1920	1,496,000,000	9,391,000	3,796,000	46.0
1921	1,078,000,000	21,236,000	1,733,000	30.2
1922	1,216,000,000	25,413,000	293,000	39.4
1923	1,300,000,000	8,795,000	4,244,000	41.5
1924	1,542,000,000	16,777,000	3,040,000	47.7
1925	1,505,000,000	39,686,000	184,000	38.0
1926	1,254,000,000	....	....	39.8

The Act of 1909 imposed a duty of 15 cents per bushel of 32 pounds, but oats were placed on the free list in 1913, where they remained until 1922 when the earlier duty of 15 cents was reimposed. Since 1922, production has fluctuated very little and exports have risen while imports have fallen to a new low level in 1925. The price of oats, which fell heavily in 1920, rose again following 1921, falling in 1925 but showing a tendency to rise in 1926.

Flaxseed presents still different features. Before 1920 there had been a steady desire on the part of certain interests to have a high rate of duty on flaxseed. But in that year it became evident that these interested parties desired a reduction in duty hoping that the needed amounts of this product could be gotten through importation. Its use is essential in many fields and no satisfactory substitute has been found. Users asked for a lower duty since the 20 cent per bushel rate included in the 1913 Act had not stopped the swing away from flaxseed production in the United States. The Act of 1922, however, imposed a 40 cent per bushel duty in hopes that the domestic production could be revived. In 1926 the Tariff Commission turned its attention to flaxseed and reported that several million acres devoted to the growth of this product were about to be turned to the production of wheat at a time when the production of wheat should be decreased rather than augmented.

The Ninth Annual Report of the Tariff Commission (1925) states that the increase in production since 1921 has been largely due to the decline in the price of wheat. By reference to the table above, we see that production picked up after the increase in the duty in 1922, although it has declined again since the peak in 1924. However, the 1926 crop is nearly twice the 1920 crop and well above all the other years previous to 1924. Imports showed an upward tendency to 1919 and then a fall in 1920, with a subsequent rise and then another decline following the change in duty in 1922. Price rose rapidly until 1919 and then tumbled in 1920, and since then it has generally been increasing.

TABLE IV

Year	Production (Bushels)	Exports (Bushels)	Imports (Bushels)	Price per Bushel	
				At Minneapolis	At Winnipeg
1910–14	18,352,000	293,000	7,405,000	$1.92	....
1915	14,030,000	288,000	14,699,000	2.04	$1.63
1916	14,296,000	482,000	12,438,000	2.91	2.03
1917	9,164,000	499,000	13,387,000	3.78	2.84
1918	13,396,000	455,000	8,823,000	4.19	3.68
1919	7,256,000	506,000	25,212,000	4.52	4.35
1920	10,744,000	226,000	16,969,000	2.09	3.50
1921	8,112,000	151,000	22,630,000	2.19	1.61
1922	10,375,000	166,000	28,033,000	2.58	2.16
1923	17,429,000	140,000	20,528,000	2.44	2.16
1924	30,173,000	128,000	14,677,000	2.63	2.22
1925	22,007,000	125,000	20,246,000	2.52	2.40
1926	19,459,000	....	....	....	1.99

Since 1922 the spread between the Minneapolis and Winnipeg prices has been more than covered by the existing rate of duty. Thus, while exports have decreased, production has increased over the pre-war years, imports are tending downward and prices appear to be relatively stable since 1922. All these movements seem to indicate that the present tariff level is effective. However, on August 4, 1926, the Tariff Commission ordered an investigation of the flaxseed situation, and while nothing final has resulted as yet from this action, it is entirely possible that some change in the existing rate may result after the conclusion of that survey.

Cattle Industry

The cattle industry next engages our attention. Until 1907, the United States was a dominant figure in the world's export trade in cattle and beef, but by 1914 we had changed to the status of an importer of those products. There was a reaction during the War, but in 1920 and 1921 the import balance reappeared. Cattle and beef had been placed on the free list in 1913, but the Emergency Act in 1921 placed a duty of 2 cents a pound on fresh beef and veal and a duty of 30 per cent *ad valorem* on cattle. The 1922 Act increased these duties. That act divided cattle imports into animals weighing less than 1,050 pounds and those weighing 1,050 pounds or more. Upon the first group they placed a duty of 1½ cents a pound, and upon the latter group the duty was 2 cents per pound. These rates were equivalent to 33 and 43 per cent *ad valorem*. And the duty on fresh beef and veal was increased to 3 cents per pound.

In Edminister's book on "The Cattle Industry and the Tariff" appears the following instructive table. It shows the condition of our beef and cattle exports for the fiscal years given. The plus figures denote an export surplus, the minus ones, an import balance.

The table shows the decline in our exports from 1912 to 1913 when we started to import more than we exported. This import balance grew until offset and later reversed, during the war period. But, with the conclusion of the War, the import balance reappeared. The increase in duties in

TABLE V

Year	Million Pounds
1912	Plus 8
1913	Minus 109
1914	Minus 461
1915	Minus 147
1916	Plus 58
1917	Plus 146
1918	Plus 372
1919	Plus 270
1920	Minus 42
1921	Minus 69
1922	Plus 3
1923	Minus 96
1924	Minus 55
1925	Plus 0.2

1922 certainly has had some effect upon the import balance since 1923 until in 1925, the imports and exports seem nearly to balance—a slight advantage being enjoyed by the export side, which seems to show that the tariff has helped somewhat in this connection.

DAIRY PRODUCTS

In the field of dairy products, we find still other problems with relation to the tariff. It is interesting to note that, up to the present, the President, acting under the powers given him in the Act of 1922, has changed the duty on 24 products. Of these, only four have been agricultural products. And of the four, two were dairy products—cheese and butter. We might add that all four of these changes were in the form of increases, with the exception of mill-feeds (included under the wheat survey), which duty was decreased.

To turn first to butter, we note the following table on page 144.

The duty on butter was placed at 6 cents per pound in 1909, reduced to 2 ½ cents in 1913, raised to 6 cents in 1921, and to 8 cents in 1922. We see from this table that from 1919 to 1921 our exports of butter fell heavily and, at the same time, imports rose while price fell over 30 per cent. The change in 1921 showed plainly in the increased exports for 1922, the increased production in 1922 and the decline in imports. But this was not lasting. Even though production has increased almost without exception since 1920, our exports have fallen until, in 1926, they are only a seventh of their 1919 amount. However, we must remember that 1919 was not a normal year, but even so, the decline in our butter exports is striking. Imports have fluctuated, but the change in duty in 1921 caused them to fall—if we may infer that the duty change was in any way responsible for this movement. But the decline only lasted one year, after which imports rose again. Since 1923, however, they have been decreasing. The price of butter, as shown in the table, fell in 1921, but since that time it has remained relatively stable.

However, on May 19, 1924, the United States Senate ordered the Tariff Commission to investigate butter costs in this country and abroad, in order to test the effectiveness of the existing tariff rate on that commodity. The investigation undertaken was very extended and comprehensive. Domestic costs, including transportation costs to New York, were found to be 56.06 cents per pound. Comparable costs for Denmark, the principal competing foreign country, were found to be 44.14 cents per pound. As a result of this survey, the Commission recommended to the President that he raise the butter duty by 50 per cent. On March 6, 1926, this was done by the President—the new rate and the one now in effect, being 12 cents per pound. No figures are available, as yet, to show the reaction to the new rate but the recentness of the change seems to indicate its effectiveness.

"The Act of 1909 fixed the duty on cheese at 6 cents per pound. Under

TABLE VI

Year	Production (Pounds)	Exports (Pounds)	Imports (Pounds)	Price (Wholesale) Cents per Pound
1919	....	34,556,000	9,519,000	61
1920	1,646,000,000	17,488,000	37,454,000	61
1921	1,715,000,000	8,015,000	18,588,000	43
1922	1,779,000,000	10,938,000	6,957,000	41
1923	1,862,000,000	5,846,000	23,741,000	46
1924	1,956,000,000	8,257,000	19,405,000	42
1925	2,099,000,000	5,343,000	7,212,000	46
1926	1,946,000,000	5,483,000	8,029,000	44

the Act of 1913, it was changed to 20 per cent *ad valorem* while the Emergency Act raised this to 23 per cent." This quotation is taken from the opening paragraph of the Tariff Commission's report on the Emergency Tariff Act of 1921. The Act of 1922 created a duty of 5 cents per pound on this product. Following is a brief table showing the figures for cheese production, imports, exports, and price levels.

When the war was over, the foreign production revived, and with it came an increase in imports as shown above. The new rate in the Emergency Tariff Act did not retard the flow of imports and the 1922 rate seemed, likewise, ineffective. So it was not surprising that dissatisfaction showed itself among the domestic producers of the Swiss type, now facing competition from imported cheese of the same type.

TABLE VII

Year	Production (Pounds)	Imports (Pounds)	Exports (Pounds)	Price per Pound (Cents)
1910–14	....	49,220,000	4,916,000	..
1915–19	....	21,398,000	45,816,000	..
1920	....	15,994,000	16,292,000	28
1921	....	26,866,000	11,772,000	22
1922	374,980,000	46,573,000	5,007,000	21
1923	398,974,000	64,420,000	8,331,000	24
1924	413,940,000	59,176,000	4,299,000	20
1925	443,314,000	62,403,000	9,190,000	23
1926	....	78,417,000	3,903,000	23

This table shows that cheese imports dropped very greatly during the war period, which was due primarily to the elimination of foreign sources of supply because of war conditions. And it was during this period that American production of the formerly imported fancy types of cheese, especially the Emmenthaler or Round Swiss type, began. The Tariff Commission was ordered to investigate the situation, and they found that in Switzerland, the principal competing foreign country, production was cheaper and more intensive than in the United States. After a complete survey, they found there existed a cost difference of 10.94 cents per pound in favor of Switzerland

which was not equalized by the existing rate of 5 cents per pound or not less than 25 per cent *ad valorem*. The result was that on June 9, 1927, the maximum increase in duty was proclaimed by the President—the new rate being 7½ cents per pound and not less than 37½ per cent *ad valorem*. Again, it is too recent to test the effectiveness of this new duty, but at least the maximum increase allowable under the present law has been granted to the cheese manufacturers in the hope that it will be effective.

In milk and milk products we have another field in which the United States is on a firm export basis. In the case of fresh milk, the limited keeping qualities restrict trade in this product to border trade between the United States and Canada. And in the Report on the Emergency Tariff, issued by the Commission, the statement appears that "the fact that the present rate is no higher than it is (2½ cents per gallon) is fairly indicative that imports are still relatively unimportant when compared with domestic production and that the influence of imported milk upon the domestic price is small." However, in 1926, the Tariff Commission started an investigation of milk and cream, and a preliminary report issued that same year (Tenth Annual Report of the Commission) states that our imports of cream from Canada had increased in value from $2,771,000 in 1922 to $7,585,000 in 1925, while imports of milk had increased from $371,000 to $1,225,000. No further results have yet appeared from this investigation, but there may be some change made in the duty when the final report is presented.

In the case of condensed and evaporated milk, the perishability handicap is absent, and the United States has developed an important international trade in these commodities. That we are clearly upon an export basis with regard to these products is shown by the movement of the tariff rates. In 1909 condensed and evaporated milk were made dutiable at 2 cents per pound. This was entirely removed in 1913, and in 1921 the 2-cent duty was reimposed. But in 1922 we see one of the few instances of a decrease in the rates applied to agricultural products in the act of the year previous—the duty in the 1922 Act on these two products being lowered as follows: sweetened condensed and evaporated milk, 1½ cents per pound; unsweetened, 1 cent per pound; and all other, 1⅜ cents per pound.

While tables are desirable in the discussion of each of these products, their use must be limited to those of more importance than one in this relation would be. However, one year can be given here to show the relation between domestic production, imports, and exports. The year 1920 may be taken, for in that year exports and imports both stood at peak levels. In 1920 domestic production amounted to 1,578,015,000 pounds, exports stood at 414,250,000 pounds, while imports were 23,766,000 pounds. The comparable figures for 1926 are: production 1,727,000,000; exports, 117,208,000; and imports, 9,376,000. These indicate, as a more complete table would show, that domestic production is growing, imports are falling, and exports, while not at their 1920 peak, are considerably higher than pre-war amounts. With this condition prevailing and with imports constituting so small a percentage of domestic production, we may safely conclude that the existing tariff rate is performing its intended function.

The remaining division of the dairy product field, to be studied next, is that of eggs and egg products. To first take shell eggs, the following table

shows that here again the United States is on a firm export basis:

Year	Exports (Dozen)	Imports (Dozen)
1910–14	13,170,000	2,149,000
1915–19	23,892,000	1,471,000
1919	38,789,000	1,247,000
1920	26,842,000	1,709,000
1921	32,291,000	3,063,000
1922	34,620,000	1,019,000
1923	30,659,000	412,000
1924	28,117,000	383,000
1925	24,999,000	609,000
1926	26,634,000	298,000

The duty on shell eggs, set by the Act of 1909, was 5 cents per dozen. This was dropped in 1913, but the Act of 1922 placed a duty of 8 cents per dozen on them. Following 1922, the imports of shell eggs dropped off until their future importation in any important amount seems doubtful. Before the passage of the 1922 Act, eggs and egg products were not dutiable at comparable rates. In 1909 egg albumen was dutiable at 3 cents per pound, egg yolks at 25 per cent *ad valorem*, shell eggs at 5 cents per dozen, dried whole eggs at 15 cents per pound, and frozen whole eggs at 5 cents per dozen. In 1913 dried albumen was dutiable at 3 cents per pound, frozen albumen at 1 cent per pound, egg yolks in whatever form, 10 per cent *ad valorem*, shell eggs, free, dried whole eggs at 10 cents per pound, and frozen whole eggs at 2 cents per pound. This arrangement led to the importation of the dried yolks and albumen separately. And after arrival in this country, they were combined—thus evading, in part, the higher import duty of 10 cents per pound on dried whole eggs. As a result, the Act of 1922 provided uniform duties—dried egg albumen, dried egg yolks, and dried whole eggs were all made dutiable at 18 cents per pound. Frozen albumen, yolks, and whole eggs were made dutiable at 6 cents per pound. And shell eggs were made dutiable at 8 cents per dozen.

In the Ninth Annual Report of the Tariff Commission (1925), the statement appears that we had a total import balance that amounted to 1 per cent of our domestic lay in 1924—all imports of eggs and egg products being reduced to shell eggs for comparison with exports computed in like manner. This leads to the conclusion that the present rates on these commodities are effective since the imports are so small a percentage of the domestic production and so exert little influence on domestic prices.

Vegetable Oils

Another group of agricultural products to receive more and more attention comprises the various vegetable oils. In these products our imports are chiefly from the Orient where production costs are very much lower than they are in the United States. We are a net importer of peanut oil, coconut oil, soya-bean oil, and olive oil. But the balance is not large, per capita, and the reason for this situation is that they can be produced cheaper abroad. However, in this explanation lies cause for future concern over these products and their tariff rates. Since the earlier acts based their duties upon these products on a gallon and the 1922 Act based them on a pound, it is rather difficult to compare the various rates exactly. However, the Act of 1922 raised all the rates, with the exception of coconut oil, which was lowered slightly. The present rates are as follows: peanut oil, 4 cents per pound; cottonseed oil, 3 cents per pound; coconut oil, 2 cents per pound; soya-bean oil, 2½ cents per pound, and olive oil, 6½ cents per pound.

During the War, when Europe was

faced with an acute shortage of vegetable oils, the production of them expanded in the United States, and those producers are the ones now most concerned over the reappearance of the cheap foreign oils which can be easily substituted for the domestic brands. The figures for peanut oil are interesting. Our imports of that commodity reached the peak in 1919, when they amounted to 156,000,000 pounds. Since that they have fallen until, in 1925 they were only 3,037,000 pounds. And the price level which stood at 12.03 cents in 1921 was 15.54 cents in 1925. Exports are negligible, but if the rise in price and the drop in imports means that domestic producers are supplying more of the home demand at a higher price, we can assume the tariff rate to be effective. In the case of cottonseed oil, we are firmly on an export basis—in fact, the United States dominates the world in the production of this oil. Production in 1922 stood at 124,000,000 pounds and exports were 73,000,000 pounds, while imports were 21,000 pounds and price stood at 6.25 cents per pound. Since then production has increased—in 1925 it amounted to 187,181,000 pounds, while exports were to the extent of 62,415,000 pounds and the price had risen to 9.15 cents per pound.

Always must one other fact, in connection with the cotton seed oil industry, be borne in mind—its direct dependence upon the cotton crop. Many changes in the figures for the oil production can be explained by reference to the statistics for cotton production. The case of coconut oil presents a different problem. This oil is peculiar among the vegetable oils in that it is not in competition with any of the other oils. It is used for its lathering qualities in the making of soap. And it is used in the making of nut butter because it stays solid at ordinary temperatures. A possible reason, then, for the low duty on this oil is found in the more inelastic demand which it enjoys. Another reason is that 75 per cent of our coconut oil comes from the Philippines and so is duty free. Even so, imports are declining—they amounted to 502,000,000 pounds in 1918 and dropped to 200,878,000 pounds in 1926, according to the figures given in the Department of Agriculture Yearbook for 1926.

Soya-bean oil, on the other hand, competes directly with our cottonseed oil, and the increased duty passed in 1922 has tended to reduce our imports. Imports stood at 336,824,000 pounds in 1918, and since then they have almost regularly declined, until they average around 17,000,000 pounds at the present time. It is hard to estimate the effectiveness of the tariff upon olive oil, since our exports and even our domestic production of that oil are relatively unimportant in comparison with our imports; 1916 is regarded by many as an important one with respect to the domestic production of olive oil. In that year we produced 192,000 gallons as compared with our imports of 7,224,000 gallons. Most of our domestic olive crop is pickled or bottled.

Thus we conclude that the tariff rate on cottonseed oil is effective and that the rates on olive oil and coconut oil are not of predominant importance. Peanut oil and soya-bean oil present the greater part of the problem, but even in these cases figures do not indicate any immediate danger. However, that all is not satisfactory may be inferred from the fact that the Tariff Commission, on February 8, 1924, ordered an investigation of the entire field of vegetable and animal fats and oils. Their findings may possibly contain recommendations for duty changes.

CONCLUSION

We conclude that the present rates are effective upon agricultural products. Were they not effective, some action or agitation would appear under the terms of the elastic provision of the present tariff act—the already famous Section 315 of Title III of the 1922 Act. It is interesting to sum up at this point what activity in the agricultural field has resulted from this section. We have already mentioned above the increases with respect to wheat, flour, butter, and cheese resulting from investigations opened and conducted under this clause with consequent action by the President. In addition to these, there may be mentioned a decrease in the duty on millfeeds and bran (part of the survey on wheat and flour) and an increase in the duty on cherries, sulphured or in brine—the duty having been raised from 2 to 3 cents per pound in December of 1927. Also, the Tariff Commission is investigating the following agricultural products at the present time—some of which investigations may lead to changes in the prevailing rates of duty: rare sugars, vegetable and animal fats and oils, edible gelatin, milk and cream, peanuts, soya-beans, cottonseed, onions, flaxseed, eggs and egg products, fresh tomatoes, canned tomatoes, tomato paste, fresh sweet peppers, and white and Irish potatoes. Reports have been submitted to the President upon maple sugar and maple sirup and upon corn, but no action has, as yet, been taken upon them. In the case of the report on flaxseed oil, the President requested additional information. The report on sugar was acted upon by the President but no change in duty was declared.

Thus we see that the channel of the elastic clause opens a door by which the tariff duties can be changed if they are found not to be effective. Despite the criticisms directed at this flexible clause and its administration, we have seen it invoked four times already in behalf of the farming interests, out of 24 duty changes since it went into effect. And in the other commodities studied above we have seen the present rates to be generally effective. A final conclusion seems to be that tariff rates are coming to be more and more protective—they have increased nearly every time they have been changed since 1921. And this is to be expected if we are to keep our agricultural tariff protective—for we no longer enjoy as many natural advantages of production in agriculture as we did even a quarter of a century ago. If we want to continue and expand our production in this field in the future, we must expect the effective duties to be increased duties as a means to that end—unless unexpected improvements in production take place.

Some Aspects of Tariff Remissions on Sugar, 1876–1927

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The purpose of this study is to consider remissions of tariff duties on sugar in the period of 1876 to 1927. We shall undertake to note the cases of such remission, something of the causes thereof, and something of the effects.

In the period following the Civil War, the United States took a renewed interest in the Hawaiian Islands. American capital went into the islands and developed the sugar growing industry for which the islands were so well adapted. In 1876–77 the annual production of sugar amounted to 11,418 long tons, most of which was sent to the United States.[1]

At this time the agitation for reciprocity between the United States and Hawaii was brought to fruition. The King of Hawaii was invited to come to the United States at our government's expense and a treaty was arranged whereby sugar of the grades commonly imported from the Hawaiian Islands (*i.e.*, below grade No. 16) and all molasses of Hawaiian production should enter the United States free of duty. The treaty was put in actual operation by a United States law effective September 9, 1876. In return a total remission was granted on nearly all products of the United States entering the Hawaiian Islands.[2]

Arguments For and Against

In the debates on the treaty and the act to put it into effect, the proponents of the reciprocity measure put forward two principal reasons for its passage. The most prominent of these was that of military protection. It was urged that with growing trade interests in the Pacific, we needed a halfway house in that quarter and that reciprocity with Hawaii would make more certain their eventual acquisition by the United States. Their possession was urged as vital to American defense.

It was claimed also that the treaty was valuable to the commercial interests—that it would turn the balance of trade in our favor and send goods instead of gold to Hawaii to pay for sugar. It was said that unless the United States offered such privileges other nations would do so, New South Wales being specifically named, and the United States would lose the duties then being recieved on imports from Hawaii. It was argued that as a result of the treaty the planters would get no more for their sugar than before, that the price of sugar would fall on the Pacific coast by the amount of the remission, and that the Pacific coast consumer would receive the benefit.[3]

The opponents of the treaty attacked it on the same grounds and also because it involved an extensive remission of duties to the benefit of only a few. It was claimed that the islands as they were then were of no military value and that we should buy and fortify them if we wished protection. It was said that the treaty meant giving up a dollar in duties to sell a dollar's worth of goods.

[1] *U. S. Department of Agriculture, Yearbook,* 1908, p. 603; *Senate Reports,* 2 sess., 53 Cong., 1893–4, Vol. 4, *Imports and Exports,* Part I, pp. 854–856.

[2] Malloy, *Treaties, etc., Senate Documents,* Vol. 47, 2 sess., 61 Cong., Document 357, Vol. 1, pp. 915–920.

[3] *Cong. Record,* 1 sess., 44 Cong., Vol. 4, Pt. IV, pp. 3035–3037; Pt. VI, pp. 5485–5487; Pt. VI, Appendix, pp. 52–56.

Senator Norwood of Georgia brought forward the most detailed opposition argument. He alleged that the instigators of the treaty were the sugar refiners of San Francisco who hoped to make an extra profit by it and to run the United States producers out of the field. He denied the claim that the rice and sugar of Hawaii would not go beyond the Pacific coast and would, therefore, not come into competition with the products from our southern states. He claimed that the only beneficiaries under the treaty would be the planters of Hawaii and the refiners in California and that they were the only persons interested in it. He showed that the price of sugar and the costs of transportation were such that when Hawaiian sugar was landed in California, it would command its own price, which could not be affected except by sugar which had paid a duty or a high freight charge. He cited the fact that $80,000,000 was invested in Louisiana rice and sugar production and claimed that these interests would be vitally endangered by the treaty. The result would be that 300,000 blacks would be turned out as savages and rich districts impoverished. Hawaiian production under such a stimulus as this treaty afforded would be a serious danger. He pointed out that if the United States acquired these islands after fifty years of such reciprocity, it would be at a cost of from $50,000,000 to $100,000,000 in remitted duties. This remission would go to only a few. He alleged that twenty-five out of the thirty-two plantations on the islands were American owned.[4]

Considerable opposition was voiced on account of the loss of revenue. It was shown that the yearly revenue derived from import duties on Hawaiian products for the fiscal year ending June 30, 1876, was $781,658.72. As the sugar industry grew in Hawaii, this would be increased. It was claimed, mistakenly, that through the most favored nation clause other duties to the amount of $284,900 would have to be remitted.[5] Such remissions would be a virtual bounty to foreign producers. In return, the United States would gain nothing but a remission of less than $100,000 in duties by Hawaii. In the debates the view was expressed by Senator Boutwell that the opposition to the treaty came in part from the fear that it would be a precedent for reciprocity with Canada.[6]

EXAMINATION OF PRACTICAL EFFECTS

Let us examine the practical effects of the treaty in regard to sugar. The production of sugar in the United States for the year 1876–77 was 89,101 long tons or 199,586,240 pounds. The total sugar imports including that from Hawaii was 1,623,932,669 pounds in 1877. As compared with these figures, Hawaii produced 11,418 long tons, or 25,578,320 pounds, in 1876–77, nearly all of which came to the United States. Thus the Hawaiian export was about 1⅓ per cent of the production and import of the United States. In 1878 it had increased to 2.87 per cent.

It is evident that a remission of duty on such a small proportion of the supply could not influence the price of sugar and that the remission was what had been claimed—a bounty to be divided between the planters and the refiners. This remission in the first full year of the treaty, 1876–77, was $1,025,459.51 on 36,494,553 pounds of

[4] *Cong. Record*, 1 sess., 44 Cong. Vol. 4, Pt. 6, pp. 5365–5566, 5570. See also pp. 5486–5490.

[5] Under the interpretation placed upon the most-favored-nation clause at the time, this treaty did not affect most-favored-nations. See U. S. Supreme Court Decisions 112 U. S., 116; 124 U. S., 190.

[6] *Cong. Record*, 1 sess., 44 Cong., Vol. 4, Pt. 4, pp. 3034–3035; Pt. 6, pp. 5569; Appendix, pp. 184–190.

sugar, and $14,026.87 on 224,430 gallons of molasses. These remissions and one on rice and paddy amounted to $1,125,359.99. As an offset, Hawaii remitted duties on United States goods to the amount of $96,212.59, leaving an excess of duties remitted by the United States of $1,029,147.40. Whether or not the free importation of Hawaiian sugar hurt the domestic growers, it is difficult to say.

If, however, the assumption was correct that the price of sugar would not be lowered, owing to the small amount of Hawaiian sugar as compared with our needs, it may be assumed that the remission of duties was a matter of indifference to American growers. As a matter of fact, the price of sugar rose in Hawaii instead of falling in the United States. To the Americans it was a matter of concern, however, inasmuch as they paid to the Hawaiian producers or the refiners the approximate amount of the remission and then through the general revenues made good the deficit in the United States funds. The question at issue was whether through policy of state or general trade development it was advisable to continue such a bounty.

The following table will show the importations from Hawaii with the amount of remission from the date of the reciprocity treaty to the removal of the duty on sugar under the McKinley Act.[7]

Thus in the period from 1876 to 1891, when the preference disappeared under the McKinley Act, there was remitted a sum of $48,084,547.67, nearly all of which went into the hands of the Hawaiian producers and the American refiners. It is possible, indeed prob-

	Molasses	Sugar	Remission
	(Gallons)	(Pounds)	
Sept. 9, 1876, to June 30, 1877	138,072	30,642,081	$792,405.91
Fiscal year ending June 30, 1878	87,534	30,368,328	792,779.86
" " " " " 1879	98,112	41,693,069	1,014,470.24
" " " " " 1880	111,950	61,556,324	1,506,589.65
" " " " " 1881	198,987	76,909,207	2,174,589.18
" " " " " 1882	152,700	106,181,858	2,612,742.82
" " " " " 1883	238,777	114,132,670	2,872,644.45
" " " " " 1884	163,347	125,148,680	2,869,689.18
" " " " " 1885	71,649	169,652,783	4,799,920.69
" " " " " 1886	61,127	191,733,175	4,276,100.95
" " " " " 1887	113,574	218,290,835	4,830,067.72
" " " " " 1888	53,582	228,540,513	4,764,618.97
" " " " " 1889	48,140	243,324,683	4,925,588.70
" " " " " 1890	81,443	224,457,011	4,535,100.46
July 1, 1890, to March 31, 1891	55,379	227,594,890	5,317,238.89
Total remission, September 9, 1876, to March 31, 1891			$48,084,547.67

[7] The figures given in this table and preceding paragraphs were compiled from *Senate Reports*, 2 sess., 53 Cong., 1893–94, Vol. 4, pp. 854–856; *Statistical Abstract*, 1898, p. 306; *U. S. Dept. of Agriculture, Yearbook*, 1908, p. 701; *House Executive Documents*, Vol. 18, Doc. 108, 3 sess., 45 Cong., *Commercial Relations*, pp. 803–810; Vol. 22, Doc. 102, 2 sess., 45 Cong., *Commercial Relations*, p. 626.

For purposes of comparison it may be noted that on the basis of the government estimate the duty remitted on all merchandise admitted free of duty from September 9, 1876, to June 30, 1891, was $55,283,638.11 or about fifteen per cent in excess of that shown here for sugar and molasses. See *Senate Reports*, *supra*, p. 856.

able, that after the first few years, a part of the advantage due to the remission may have been shifted to the American consumer.

MARKED STIMULUS

The stimulus given to the sugar interest in Hawaii by the treaty was marked.

> Upon ratification of the treaty, sugars advanced in the aggregate 2.81 cents per pound; molasses 6¼ cents per gallon . . . the advance being equal to the duties remitted by the United States under the treaty,

says the United States representative there. And again,

> The reciprocity treaty between the United States and this kingdom has been in operation over a year and its effects are being sensibly felt in the prosperity of the islands. The price of real estate has advanced largely. In 1875 the assessed value of real property in the kingdom was $6,490,600. In 1876, in anticipation of the ratification of the treaty it went up to $7,624,061. This year the returns . . . will show its value to have gone up to over $8,500,000. This increase is mostly in sugar and rice lands. One-half interest in the Lahaina sugar plantation sold a few months ago for $500,000, the whole of which could not have been sold before the treaty passed for that amount. Interests in other sugar and rice plantations have recently sold at the same advanced prices. Many new sugar and rice plantations are being opened and old ones enlarged.[8]

These were chiefly in the hands of Americans. The productions of sugar increased from 25,576,320 pounds in 1876–77 to 268,800,000 in 1889–90. The exports to the United States increased from 30,368,328 pounds in 1878 to 224,457,011 pounds in 1890. This great increase in prosperity was evidently conditioned upon the advantage which Hawaiian sugar enjoyed in the markets of the United States. The large increase in the amount of sugar within the tariff walls and the readjustment of the sugar trade may have caused some shift to the benefit of the consumer. Such a shift would mean, however, that the domestic growers would suffer by that much.

It is interesting to note the relative

	United States	Hawaii
	(Pounds)	(Pounds)
1876–77	199,586,240	25,576,320
1877–78	159,286,400	40,896,680
1878–79	251,328,000	47,452,160
1879–80	208,996,480	63,584,640
1880–81	286,422,080	93,608,800
1881–82	172,185,552	114,177,280
1882–83	319,865,280	115,819,200
1883–84	304,142,720	143,233,520
1884–85	228,096,960	171,351,040
1885–86	304,097,920	216,270,000
1886–87	203,074,560	212,800,000
1887–88	376,474,560	224,000,000
1888–89	348,924,800	268,800,000
1889–90	310,661,440	268,800,000

Fiscal Year	Imports from Hawaii	Other Imports
	(Pounds)	(Pounds)
1877	30,642,081*	1,654,556,831
1878	30,368,328	1,507,515,385
1879	41,693,069	1,793,004,002
1880	61,355,324	1,768,253,496
1881	76,909,207	1,869,957,918
1882	108,181,858	1,884,267,751
1883	114,132,670	2,203,686,433
1884	125,148,680	2,631,258,228
1885	169,652,783	2,548,232,050
1886	191,733,175	2,498,258,590
1887	218,290,835	2,918,152,405
1888	228,540,513	2,471,743,769
1889	243,324,683	2,518,878,284
1890	234,457,011	2,709,554,549

* September 9, 1876, to June 30, 1877.

[8] *Executive Documents*, Vol. 23, 2 sess., 45 Cong., 1877–78, Doc. 102, *Commercial Relations*, pp. 623–624.

proportions of Hawaiian and domestic sugar produced in this period.[9]

The slight part which Hawaiian sugar could have had in reducing the price of sugar in the United States is apparent from the preceding tables.[10]

BOUNTY PROVISION

During the operation of the McKinley Tariff Act, April 1, 1891, to August 1, 1894, all sugar came in free and domestic producers received a production bounty of two cents a pound. The Hawaiian producers were not included and thus they lost the preference which they had enjoyed. During the period of the bounty provision, the domestic growers received a total of $29,783,604. At the same time the loss of revenue due to putting sugar on the free list was about $250,000,000, which presumably was reflected in lower prices to consumers.[11]

With the repeal of the bounty provision, effective August 1, 1894, the preference was restored to Hawaiian sugar. For the period August, 1894, to April 30, 1900, the importations and remissions were as follows:

	Molasses	Sugar	Remissions
	(Gallons)	(Pounds)	
Aug. 1, 1894, to June 30, 1895	57,640	231,524,489	$2,499,329.38
Fiscal year to " " 1896	33,705	352,175,269	4,535,792.50
" " " " " 1897	7,760	431,306,359	5,276,175.60
" " " " " 1898	15,544	509,766,788	8,564,416.36
" " " " " 1899	13,350	462,299,960	7,767,039.89
July 1, 1899, to April 30, 1900	14,435	413,192,993	6,667,434.49

For the entire period during which a preference was shown to Hawaiian sugar under the reciprocity treaty, September 9, 1876, to April 30, 1900, the importation of molasses was 1,814,807 gallons, of sugar 4,490,491,965 pounds, and the remission of duties $83,394,735.89. After April 30, 1900, all Hawaiian sugar entered free by virtue of the new status under the American flag. Bringing the islands completely within the tariff barrier makes little, if any difference, as far as the effects of a remission are concerned, but we will not attempt to trace distinctions between parts of the incorporated United States territory.[12]

TARIFF REGULATIONS

With the conclusion of the war with Spain, there was the problem of tariff regulations with Porto Rico, Philippine Islands, and Cuba to deal with. The exact status of these territories was not, at first, clear. The question was raised whether or not the tariff wall of the United States was by the mere acquisition thrown about the territories secured from Spain. In other words, did the Constitution follow the flag? Congress, acting upon the assumption that it did not, imposed a tariff on imports from Porto Rico equal to fifteen per cent of the existing Dingley rates. In *Downes* v. *Bidwell*

[9] *U. S. Dept. of Agriculture, Yearbook*, 1908, p. 603.

[10] *Statistical Abstract*, 1896, p. 306; *Senate Reports*, 2 sess., 53 Cong., Vol. 4, *Imports and Exports*, Pt. I, pp. 854–856.

[11] *U. S. Dept. of Agriculture, Yearbook*, 1908, p. 603; *Statistical Abstract*, 1898, p. 306; *House Documents, Foreign Commerce and Navigation of the United States*, 1901, 1 sess., 57 Cong., p. 125.

[12] *Commerce and Navigation*, 1895, p. 513, 588; 1896, p. 549; 1897, p. 559; 1898, p. 664; 1900, pp. 1064–1065; *Letters from Bureau of Foreign and Domestic Commerce*, July 19, Aug. 8, 1927; *House Documents*, 3 sess., 58 Cong., Vol. 39, Doc. 13, Vol. 2, p. 21.

and *DeLima* v. *Bidwell* it was decided that discrimination could be exercised against territory belonging to but not incorporated into the United States.

Consequently, from May 1, 1900, to July 25, 1901, Porto Rican sugar paid fifteen per cent of the duty then in force which on the usual grade imported was 1.685 cents per pound. This meant a remission for the period May 1, 1900, to July 25, 1901, of $2,635,850.46. After July 25, 1901, the tariff against Porto Rico was suspended and sugar from the island entered the United States free. Technically, Porto Rican sugar was no longer foreign sugar in any sense and the failure to levy a duty could scarcely be called a remission of duty. The results are much the same, however, and it may be worth while to note the amount of sugar entering the United States proper from that island.

	Pounds
1901	137,200,000
1902	183,800,000
1903	226,200,000
1904	259,200,000
1905	271,400,000
1906	410,600,000
1907	408,200,000
1908	469,200,000
1909	488,400,000
1910	569,100,000
1911	645,800,000
1912	754,200,000
1913	775,400,000

At the prevailing rates this meant a remission (if it can be called such) of about $6,300,000 in 1908, and $10,-300,000 in 1913, for examples.[13]

[13] *U. S. Dept. of Agriculture, Yearbook*, 1923, pp. 222–223; Wright, *Sugar in Relation to the Tariff*, pp. 152, 272–273; *Foreign Commerce and Navigation of the United States*, 1901, Vol. II, pp. 1120, 1125, 1301.

It will be noted that as the price of sugar in the United States fell to the level set by the less-than-full-duty Cuban sugar, the preference to Porto Rican, Philippine, and Hawaiian producers was reduced to the amount of the duty on Cuban sugar. The full duty became merely nominal.

The Philippine Islands were at first left entirely outside the United States tariff barrier, but on March 8, 1902, imports from the islands of articles produced there were admitted at 75 per cent of existing rates. The tariff act of 1909 allowed Philippine sugar to the amount of 672 million pounds to be admitted free, thus granting a bonus to producers there equal to the full amount of the sugar duty. Later tariff acts have continued this preference with restriction. The following table will indicate the importance of the Philippine crop and the reduction of duties while on a 75 per cent duty basis.[14]

Fiscal Year Ending	Imports	Reduction of Duties
	(Pounds)	
June 30, 1903	18,773,333	$90,729.00
1904	47,026,904	158,236.39
1905	54,999,983	172,388.93
1906	52,724,685	401,343.33
1907	70,506,292	484,439.33
1908	29,462,800	166,100.33
1909	94,952,827	297,209.76
1910	175,532,703	
1911	229,911,751	
1912	438,490,228	
1913	203,161,765	
1914	116,749,211	
1915	326,870,405	
1916	217,222,804	
1917	270,008,416	
1918	173,600,941	
Calendar year:		
1918	135,600,975	
1919	175,872,529	
1920	291,716,240	
1921	329,754,769	
1922	549,617,189	
1923	475,657,824	
1924	678,013,849	
1925	985,548,501	

[14] These figures are computed from the volumes of *Foreign Commerce and Navigation* of the United States; see also *U. S. Dept. of Agriculture, Yearbook*, 1908, p. 603; 1923, p. 223; Wright, *op. cit.*, pp. 152, 272–275.

It has not been deemed necessary to compute the reduction of duties since February, 1910, when the islands were brought completely within the custom lines of the United States, but the extent of such reduction may be seen from the table. The last full fiscal year under the 75 per cent duty basis showed a reduction of $297,209.76. The next year, 1910, which included a little more than a month of the old rate showed a reduction of $2,195,914.11. In 1912 the reduction amounted to $5,826,202.83. This increase is partly due to an increase in imports but largely due to the entire reduction of the duty. It will be noted that the import for the year 1925 was more than double that of 1912. It is impossible to say how much sugar would have been imported at full duty, but all that was imported benefited by the remission.

ATTITUDE TOWARD CUBA

It is Cuba, however, that we have drawn upon most heavily for our sugar imports. We had long been interested in Cuba before circumstances near the close of the last century put the island under our protection. Our interest was partly the result of sympathy for an oppressed people and partly because of our trade with the island and the investment of our nationals there. From what were, perhaps, mingled motives the United States felt constrained to grant a favor to the island in the form of an advantage in our sugar market. The attitude of our country at that time seems to have been much like that reflected by a prominent paper which recently printed the following editorial:

> Cubans are asking the United States government to modify its policy with respect to importations of sugar. Cuba, it is said, is feeling the competition of Philippine cane, the production of which has more than doubled since 1913.
>
> The protest should be received sympathetically in Washington. The first interest of our government in dealing with sugar is to protect domestic production. Cuba is our next concern. Considerations of security and trade should prompt our government to do all in its power to gain Cuba's friendship by assuring Cuban prosperity. Cuban prosperity is built upon the sugar industry. Our wish to develop the Philippines, half way around the world, should not blind us to our heavier responsibility and greater interest in the Caribbean.[15]

By reciprocity arrangement Cuban sugar has been admitted since December 27, 1903, at a reduction of 20 per cent below existing general rates in return for a like concession upon the part of Cuba. The following table will show the importance of the Cuban import in our sugar market.[16]

The importance of Cuban sugar as compared with the domestic production is shown by the following figures.[17]

During the periods when any considerable amount of our consumption was full-duty sugar, the price of all sugar was increased by the approximate amount of the duty, and the

[15] *Chicago Tribune*, August 24, 1927.

[16] This table has been compiled from the figures of the Bureau of Foreign and Domestic Commerce. For detailed citation see Appendix. The remission of duties has been computed on the basis of duties paid. It must not be assumed that there was an actual reduction of duties in favor of the Cuban producers to the extent of $356,987,267.04. The figures given are based upon the full-duty rate which was a nominal one during most of the period considered. To find the exact amount of benefit to the Cuban producers it would be necessary to use the weekly sales figures of Cuban sugar and the difference between the price of Cuban and full-duty sugar. If enough full-duty sugar were imported to determine the market the preference would equal the reduction.

[17] *Foreign and Domestic Commerce of the United States*, 1905, 1908, 1916, 1921; *U. S. Dept. of Agriculture, Yearbook*, 1923, pp. 845–846; 1926, p. 1006.

Fiscal Year Ending	Sugar Imports in Pounds	Reduction of Duties	
		Sugar	Sugar and Molasses
June 30, 1904*	1,964,992,806	$6,400,832.65	$6,454,891.96
1905	2,925,842,312	6,294,704.10	6,347,668.71
1906	2,522,590,501	8,182,268.87	8,212,780.02
1907	3,166,163,975	10,346,452.46	10,375,450.75
1908	2,462,063,894	8,041,189.16	8,066,178.51
1909	2,649,029,771	8,689,455.69	8,717,479.60
1910	3,468,606,420	11,402,732.95	11,445,452.09
1911	3,610,867,536	11,901,520.55	11,933,549.70
1912	3,229,659,112	10,542,363.65	10,677,673.15
1913	3,746,985,521	12,360,761.14	12,403,190.32
1914	5,270,893,134	15,292,379.12	15,327,305.38
1915	4,642,014,681	11,515,262.12	11,563,511.50
1916	5,200,635,764	12,954,029.90	13,055,836.98
1917	4,790,946,051	11,921,040.57	12,232,493.79
1918	4,522,112,593	11,241,659.41	11,491,782.75
July 1, to Dec. 31, 1918	1,552,300,597	1,317,235.50	1,462,839.50
Calendar year 1919	6,672,643,624	16,600,574.12	16,704,814.88
1920	5,740,908,884	14,283,273.53	14,389,707.41
1921	5,058,764,834	15,883,905.59	15,878,921.99
1922	9,052,975,268	36,423,903.14	36,478,732.01
1923	6,803,039,520	29,793,771.27	29,850,092.44
1924	7,437,611,971	32,562,577.47	32,617,584.33
1925	7,803,463,318	34,685,415.46	34,861,629.27
1926	8,241,351,327	36,130,000.00	36,204,577.00
Jan. 1, 1927, to June 30, 1927	3,371,087,541	16,400,000.00	16,437,700.00
Total	108,026,199,648	$355,077,308.42	$356,987,267.04

* December 27, 1903, to June 30, 1904.

	Cuban Import	U. S. Production and Non-Cuban Import	Full Duty Sugar
	(Pounds)	(Pounds)	(Pounds)
1905	2,925,842,312	1,897,190,232	527,974,249
1908	2,462,063,894	2,789,396,896	1,044,198,096
1911	3,610,867,536	2,015,216,304	54,880,653
1916	5,200,635,764	2,025,680,000	282,236,707
1921	5,058,764,834	3,392,680,604	520,030,244
1925	7,803,463,318	3,147,087,882	55,684,523

remission or reduction of duty was so much of a grant put into the pockets of the growers in the favored sections or the refiners in the United States. During the period of Hawaiian preference, the sugar imported from there was of slight importance as compared with domestic consumption and nearly, if not all, of the remission went into the hands of producers and refiners. For a number of years after Cuban preference was established in 1903,

there was enough foreign full-duty sugar imported to set the price at New York. Under the circumstances, the increase in price was equal to the rate of duty and the Cuban producers and the refiners profited accordingly.

This increased profit so stimulated production in favored areas that, in connection with the domestic production, the supply of less-than-full-duty sugar tended to set the New York price. Under this increased supply the price broke and the preference to Cuban producers was partially absorbed by a reduction in price to the advantage of the consumer. This was in evidence as early as 1910 and has been particularly true of the period following the World War. In 1925, for instance, the amount of full-duty sugar was only 55,684,523 pounds as compared with the domestic production and less-than-full-duty sugar of 10,950,551,200 pounds or approximately one half of one per cent. Due to the seasonal variation of the importation from various countries even this small amount might disappear at times. Furthermore, the quantity of sugar exported with drawback has of late years exceeded the amount of full-duty sugar, leaving the less-than-full-duty sugar dominating the market completely.

VARIATION IN SUPPLY

The seasonal variation in the sugar supply operates to cause a changing preference on part-duty sugar. The Hawaiian crop arrives during the summer and autumn, at which time the Java sugar was formerly imported. The domestic cane sugar enters the market late in the year, leaving the period from January to May to be supplied by the Porto Rican and Cuban crop. During this season virtually no sugar except that from the West Indies was imported, particularly during the years from 1909 to 1911, when the Cuban supply did not yet dominate the United States market except during their export season. At such a time the large Cuban shipments —more than ample for the season—caused the United States to be a buyers' market and the refiners were in a position to force the market down. Under such a circumstance the domestic price was determined by the Cuban rate and the Cuban producer received no benefit unless he was able to hold his crop until a season when there was enough full-duty sugar imported to set the price on a full-duty basis. This situation occurred during the transition period when the total Cuban supply was not large enough to meet our requirements. It is because of this seasonal nature of the Cuban export that yearly figures of imports and reduction do not tell the whole story.

As the increased supply of sugar from the fields of Hawaii, Porto Rico, the Philippines, Cuba, and the domestic cane and beet sugar sections of the United States began to fill the market, the full-duty sugar became so umimportant that it no longer set the market at any time during the year. As a result the price dropped to the level set by the dominating Cuban sugar and the Cuban preference was gone. The Cubans have been able to sell sugar in other countries on as favorable terms as in the supposedly favored market of the United States and have steadily increased their exports to those markets. At times of shortage in the United States market, as during recent months, the Cubans have been able to force the market up on a small part of their crop sold during the summer and autumn. This has not affected the bulk of the crop however. With Cuban sugar entering the general markets of the world in the face of a United States preference, there is a condition of free competition in which the sugar sent to

England sells at the same price (minus a freight differential) as in the United States. Otherwise such sugar would be sold in the United States until the price here was reduced to the world market price.

During the transition period when the Cuban supply was beginning to dominate the market of the United States the American consumer probably did not secure the advantage in price reduction. In the early years the "Sugar Trust" was in a position to hold up the price to the level set by the full-duty sugar later in the year when the Cuban supply was exhausted. With the present competition among refiners such a condition might not prevail. In 1911 Willet and Gray estimated that of the reduction from 1903 to 1911, about 52 per cent went to the consumer (wholesale dealer), about 19 per cent to the refiner, and about 29 per cent to the Cuban producer.[18]

the various reasons for and against a high protective tariff on sugar. We can only concern ourselves with the remission or reduction of duties, the reasons therefor, and the effects. We have shown that for a greater part of the period considered the remission has meant a bounty to the favored producer and refiner and that it was not until 1910 that there was a beginning of a shift favoring the consumer. Only in the period following the war has that been marked. The advantages or disadvantages of the remission of more than $425,000,000 must be considered in connection with reasons of state and trade and investment conditions, and are too complicated to be considered further here. It may be worth while, however, to note the disposition of the sugar tariff for one year. For that purpose the year 1906 has been chosen.

Wright has made a somewhat similar estimate for the year 1922 showing a tax upon consumers of $216,519,626. Of this $124,481,848 went to the United States treasury and $92,037,778 went to domestic producers.[19]

Dr.	Cr. Disposition of Tax		
	Pounds and Sources	U. S. Treasury	Protection to Producers
Tax levied upon consumers through a duty of 1.62 cents per pound on 6,308,947,838 pounds.	2,522,590,501 Cuba	$32,692,772.90	$8,173,193.22
	1,151,024,015 Full duty	18,646,589.04	
	625,842,000 Dom. beet		10,138,640.40
	781,204,000 " cane		12,655,504.80
	428,960,000 Porto Rico		6,949,152.00
	35,724,685 Phil. Is.	640,604.93	213,534.97
	746,602,637 Hawaii		12,094,962.72
	6,308,947,838	$51,979,966.87	$50,224,988.11
$102,204,954.98	$102,204,954.98		

Reduction of Duties

It would be outside our province to undertake the difficult task of showing the effect of the tariff on the price of sugar in the United States or to give

[18] See *Hardwick Committee Report* (1911), p. 3551.

[19] Wright, *Sugar in Relation to the Tariff*, p. 99. In neither of these computations is any account taken of re-exported sugar.

APPENDIX

Detailed Citation for Cuban Imports, footnote 16.

1904. *Foreign Commerce and Navigation.* House Doc., 3 sess., 58 Cong., Vol. 38, Doc. 13, Vol. 1, p. 873.
1905. *Foreign Commerce and Navigation.* House Doc., 1 sess., 59 Cong., Vol. 33, Doc. 13, pp. 991–992.
1906. *Foreign Commerce and Navigation.* House Doc., 2 sess., 59 Cong., Vol. 29, Doc. 13, pp. 1013–1014.
1907. *Commerce and Navigation of the United States,* p. 1038.
1908. " " " " " " " p. 941.
1909. " " " " " " " p. 972.
1910. " " " " " " " p. 1136.
1911. " " " " " " " p. 1022.
1912. " " " " " " " p. 1093.
1913. " " " " " " " p. 840.
1914. " " " " " " " pp. 838–839.
1915. " " " " " " " p. 863.
1916. " " " " " " " p. 885.
1917. " " " " " " " p. 895.
1918. *Foreign Commerce and Navigation* of the U. S., pp. 970–971.
1918. *Letter—Bur. For. and Dom. Com.,* July 19, 1927.
1919. *Foreign Commerce and Navigation of the United States,* pp. 504–505.
1920. " " " " " " " " pp. 568–569.
1921. " " " " " " " " pp. 882–883.
1922. " " " " " " " " pp. 540–541.
1923. " " " " " " " " pp. 519–520.
1924. " " " " " " " " pp. 461–462.
1925. " " " " " " " " p. 25, Vol. 2.
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Chicago Tribune, August 24, 1927.

Observations on Foreign Markets for Agricultural Commodities

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ONE who is much on the road and rides in the smoker gets at first hand the farmers' views on many matters. No topic comes up more often than markets for farm products. Interest in prices is universal. Almost invariably, however, the markets discussed are local markets or, at the farthest, the primary markets. What is the country elevator paying for wheat or corn? What did Chicago do yesterday? What luck did you have at the Yards? Or, if one is in the South, what is cotton worth at the shipping point or at New Orleans? Foreign markets are rarely mentioned, though the export demand for wheat, meat products or cotton is always a material factor in the determination of prices the producer receives. As an individual seller he has, of course, no contact with overseas buyers and as yet comparatively few American farmers producing staple crops have established direct foreign connections through their associations. More progress has been made in that direction in Canada where through the operations of the "Wheat Pool" export trade has acquired a personal interest for growers throughout the Prairie Provinces. Such an attitude on the part of farmers in the United States would be encouraged by the creation of such farmer owned and farmer controlled "stabilization corporations" as Herbert Hoover has proposed. It is with such an eventuality in mind that the notes that follow have been prepared. Only the high spots of the picture are touched.

Early Expansion of the Agricultural Industry

For their times the American Colonies were prolific producers of agricultural commodities. The young states enlarged the output. With the coming of the railroads, the development of better farm implements and the opening of the West, the products of the prairies, chiefly grains and livestock, were added in rapidly increasing volume to the cotton and tobacco of the South. No territory so vast and rich in opportunity for the farmer was ever occupied so quickly as the watersheds of the Ohio, Mississippi and Missouri rivers and the Pacific Northwest. Courage, the Homestead Act, and the covered wagon turned the trick.

From 1849 to 1889 the expansion of the agricultural industry as a whole was faster than the increase in our population, and the land brought under cultivation was largely virgin soil. During these forty years the area of improved land in the United States, in rounded numbers, as reported by the Bureau of the Census, increased from 113 million to nearly 358 million acres or by about 216 per cent; the population, from 23 million to 63 million persons or by 171 per cent; and improved land per capita from 4.87 to 5.68 acres. The number of cattle, sheep and swine on farms increased by about 118 per cent.

For the next thirty years, 1889 to 1919, though agriculture made substantial progress in many directions,

the expansion of the industry failed to keep pace with the growth of the population. While improved land moved upward from 358 million acres to 503 millions or by 41 per cent, the gain in population was from 63 to nearly 106 millions or almost 68 per cent, and the area in improved land per capita fell from 5.68 to 4.76 acres.

The United States returned to peace with its agricultural plant highly expanded. The improved land in 1919 amounted to 503,073,000 acres. An official report for 1927 has not been made, but it is possible to indicate the trend in recent years by other data. Of the improved land in 1919, some 352 million acres or 70 per cent were devoted to nineteen crops. In 1924 the area devoted to the same crops fell to 345 million acres. By 1927, it had increased to 355 millions, a figure slightly higher than that for 1919. The changes in the acreage of the nineteen principal crops from 1919 to 1927 suggests an increase in the area of improved land of about 1 per cent. During the same period the population no doubt increased not less than 12 per cent. About 4.28 acres of improved land per capita for 1927, as against 4.76 acres in 1919, seems a fair guess. In other words, the expansion in the area of farm operations since the war has fallen far short of the increase in population. In the number of cattle, sheep and swine on farms there has been a decrease of about 12 per cent.

Accurate estimates of the total volume of agricultural production in the early years comparable with the reports for late years are not available. It is probable, however, that the trend in production, as related to population, has closely followed the trend of improved acreage as related to population, for the yields per acre of representative crops as averaged for ten-year periods have not varied widely from one decade to the next. In this connection, it may be noted that for the long period under review improved cultural practices have been in a measure offset by the use of poorer lands and the extension of cultivation into regions of more uncertain rainfall. It is probable also that the per capita consumption of food, certainly of the consumption of bread and meat, has decreased somewhat during the last half century.

The more rapid increase in population than in production has tended, of course, to diminish the percentage of the production available for shipment overseas. To show its effect upon our principal agricultural exports a few statistics are useful, tedious as such data always are.

MAJOR AGRICULTURAL EXPORTS

The published reports of the customs show some 200 classes and subclasses of agricultural exports. A detailed statement of all such commodities would exhibit an astonishing category. We need consider only the major items, however, tracing for each the relation of exports to production since the early 'seventies.

For many years our chief agricultural exports have consisted of cotton, bread grains and flour, meat and meat products and tobacco. For forty years before the war the acreage of cotton, averaged for ten-year periods, steadily increased and production mounted with it, the crop of 1874 yielding 3,683,000 bales and that of 1913 yielding 14,156,000. During this long period domestic requirements increased in about the same ratio as the crop, the four decades showing exports ranging from 65 to 67 per cent of the production. For the six years 1914 to 1919 about 52 per cent was exported, and since the war the exports have amounted to nearly 56 per cent.

For the thirty years ending 1903

wheat furnished a surplus for export equal to about 30 per cent of the quantity harvested. For the next ten years, however, or from 1904 to 1913 the exports (including flour) amounted to only about 16 per cent. Markets were discouraging and forecasts of crops soon to fall within the limits of domestic needs were not uncommon. The patriotism and prices of war time, however, so stimulated larger sowing that notwithstanding the low yields in 1916 and 1917 the exports from 1914 to 1919 averaged nearly 27 per cent of the production.

Conservation in the domestic use of flour also played its part. Since the war the yearly exports have ranged from as high as 37 per cent to as low as 14 per cent of the crop and from 1920 to 1927 averaged about 25 per cent. Rye, the other bread grain, has never been as popular in the United States as in Europe and the production, as compared with that of wheat, has always been inconsiderable. The exports before the war were small not only absolutely but also in proportion to production, but during the war they jumped to about 36 per cent of the production of those years and for the last eight years have averaged about 52 per cent. The coarse grains (corn, oats and barley) have found their way into export trade chiefly after conversion into meat. Even during the war their exports amounted to less than 4 per cent of the production, and since the Armistice they have averaged only about 2 per cent. Tobacco, on the other hand, has always provided a large surplus for export. For the twenty-year periods 1874 to 1893 and 1894 to 1913 the exports accounted for 52 per cent and 40 per cent of the production. During the war and from 1920 to 1927 they amounted to nearly 33 per cent.

Satisfactory figures for the production of beef and pork and their products prior to 1900 are not on record. From 1900 the trend of exports in proportion to production was downward, except when checked by war demand. From 1900 to 1913 an estimated average production of beef, pork and lard of 14,544 million pounds a year provided 2,241 million pounds or 15 per cent for export; an average production of 15,888 million pounds from 1914 to 1919 furnished about 16 per cent; and an average production of 18,499 million pounds from 1920 to 1927, about 14 per cent.

A point worth remembering in reviewing the past performance of American agriculture as an exporting industry is that the supplies exported were the output of home farms, rather than landed estates, and that for many years and over large areas appreciation in land values, rather than profit from current cropping, was regarded as the principal source of gain. Domestic factors that in recent years have worked against production for export are the depression in the price of land, higher taxes, higher wages, higher freight rates and the wider opportunity for profitable employment in urban occupations.

Of our total domestic exports of all commodities our exports of farm products have always formed an important part. Until about 1912 they formed the larger part. In actual value their trend was upward, with some minor depressions, from $260,000,000 in 1860 to a peak of $4,096,000,000 in 1919. Low prices, rather than lack of volume, dropped their value to $1,884,000,000 in 1922 and from 1923 they have averaged about $1,950,000,000 a year. As a result of the more rapid increase of manufactures, however, the portion of the total export movement consisting of farm products declined from about 80 per cent in the 'fifties to around 70 per cent in the 'nineties, and to an av-

erage of about 50 per cent for the five years preceding the war. For the fiscal years 1916 to 1918 the average fell to 35 per cent, partly owing to short wheat crops in 1916 and 1917. For 1919 to 1922, with the support of an insistent European demand, it advanced to about 48 per cent, while from 1923 to 1927 there was a decline from 46 per cent to 39 per cent. The exports of forest products, which are sometimes classed as agricultural, are not included in these calculations.

Relations of Foreign Trade to Farmers' Business

In studying the relations of foreign trade to the farmers' business it is orthodox practice to make somewhat detailed comparisons of the export movement of agricultural commodities in what are, or at least may be assumed to be, typical prewar and postwar periods. Such comparisons are often made with respect to the value, volume, composition and destination of such exports during the two periods. This method is perhaps as good as any for distinguishing what was, from what may be, but it does not lead to safe conclusions as to what will be. From a forecaster's standpoint farmers have a most disconcerting way of sticking to unprofitable production programs or of increasing the production of a certain crop to an astonishing degree if the price thereof is attractive for a few years. Periods suitable for such comparisons are 1910–14 and, to take the last five years, 1924–28 (fiscal years). Certain aspects of these two periods may be found of interest.

In round numbers, the total gross value of animal products and crops not fed to livestock for 1910–14, as estimated from reports of the Department of Agriculture, averaged $7,200,000,000 a year. The value of the agricultural exports for the corresponding period averaged $1,036,000,000 or about 14 per cent of the production. For the last five years production has averaged about $9,618,000,000 and exports $1,953,000,000 or about 20 per cent. While these values for production and exports are not strictly comparable, the relation shown indicates the continuing importance of the foreign trade during recent years. Between the two periods the annual average value of domestic exports of non-agricultural commodities of all sorts increased from $1,094,000,000 to $2,706,000,000, or by 147 per cent, while exports of agricultural commodities increased from $1,036,000,000 to $1,953,000,000 a year, or by nearly 89 per cent. In the prewar period the agricultural exports averaged about 48 per cent of the domestic exports and during the last five years, nearly 42 per cent. When the remarkable development of mass production in manufactures since 1913 is taken into account, and also the low prices of agricultural products as compared with prices for non-agricultural commodities since 1920, agriculture seems to have held its own rather well as a producer of foreign exchange. On the whole American agriculture must be rated as efficient, in spite of the frequent admonitions it receives to mend its ways. As an exporting industry it has certainly outranked in initiative, adaptation of equipment, variety of production and output per person engaged all its competitors for foreign orders.

This broad statement is not refuted by the fact that first place as a wheat exporter may be granted to Canada—and first place as an exporter of beef to the Argentine. Its present position in export trade is due largely to its increased efficiency in recent years, the aggregate production in 1923–27 averaging about 12 per cent greater than in 1910–14 although the number of per-

sons on farms decreased by about 3,550,000 between 1910 and 1927.

INCREASE IN VOLUME

The increase in the volume of agricultural exports between 1910–14 and 1923–27 (calendar years) may be indicated by a tentative index of quantities shipped abroad in which the average exports from 1910 to 1914 are taken as 100. Adopting a little different classification of exports than that so far employed, the index numbers of exports, averaged for 1923–27 run about as follows: animals and animal products 168, dairy products and eggs 291, grains and grain preparations 175, vegetables, fruits and nuts 236, cotton 90 and tobacco 137, the average for these groups being 122. Omitting the southern products (cotton and tobacco) the remainder or western products averaged 149. As already stated, however, these figures are merely tentative.

The composition of the total agricultural exports, as expressed by the values of its constituent parts, varies of course from year to year with the changes in the relative quantities of the products shipped and the changes in their relative prices. The portion of the aggregate movement furnished by the four major groups (cotton, grains and grain products, meats and meat products and tobacco), however, averaged about the same during 1910–14 as during 1924–28, or not far from 86 per cent in both periods. Considering these groups separately, cotton failed to keep step with the rest. For 1910–14, cotton accounted for nearly 54 per cent of the total value of the agricultural exports; grains and grain products, for 14 per cent; meats and meat products, for 14 per cent also; and tobacco, for 4 per cent. For 1924–28, cotton averaged about 47 per cent; grains and grain products, 19 per cent; meats and meat products, 12 per cent; and tobacco, nearly 8 per cent. In both periods the 14 per cent of the exports not furnished by the four groups mentioned consisted of live animals, dairy products, vegetables, fruits, nuts, feeds, fodders and miscellaneous products in varying proportion. For 1924–28, fruits and vegetables amounted to about 6 per cent; feeds and fodders, to 2 per cent; dairy products, to 1 per cent; and all other products, to 5 per cent. Owing to changes in customs classifications from time to time the comparisons given above cannot be regarded as exact, but they are believed to be accurate enough to give a true picture of the general situation.

DISTRIBUTION

The following distribution of United States' exports of all agricultural products by grand divisions, averaged for 1910–14, as calculated from the values reported by the customs service, is given in a trade information report of the Department of Commerce published a few years ago: Europe 83.9 per cent, North America 10.2 per cent, South America 1.3 per cent, Asia 3.4 per cent, Oceania .72 per cent and Africa .46 per cent of the total.

The point of chief interest is that Europe took practically 84 per cent of the aggregate movement. Within Europe the demand for our agricultural exports was concentrated for the most part in the small but highly industrialized manufacturing region of Northwestern Europe, comprising the United Kingdom, Germany, France, the Netherlands and Belgium. From 1910 to 1914 the averaging takings of these five countries amounted to 87.7 per cent of all our agricultural exports to Europe and 73.6 per cent of such exports to all countries. Of our total agricultural exports to Europe before the war cotton formed 52.8 per cent; meats and meat products, 12.4 per cent; grains and

grain products, 10.1 per cent; tobacco, 3.1 per cent; fodders and feeds, 2.7 per cent; fruits, 1.9 per cent; and other products, 17 per cent. No such detailed analysis of the distribution of agricultural exports for the period 1924–28 is at hand but, on broad lines, the distribution averaged for those years followed the pattern of 1910–14, the chief difference being a reduction in the portion of the total movement absorbed by Europe.

The agricultural exports from the United States for each of the fiscal

TABLE I—UNITED STATES EXPORTS OF FARM PRODUCTS
(Fiscal Years, Values in Thousands of Dollars)

	1923–24	1924–25	1925–26	1926–27	1927–28	Average	Per Cent of Total Farm Products
Animal products:							
Meats and meat products	296,485	273,207	254,038	203,431	178,779	241,208	12.4
Dairy products	28,175	25,633	20,766	17,523	17,043	21,828	1.1
Other animal products and animals	33,968	40,240	40,012	39,677	38,258	38,431	2.0
Total	358,727	339,080	314,816	260,631	234,080	301,467	15.5
Vegetable products:							
Cotton, including linters	903,975	1,060,980	917,719	866,924	820,537	914,027	46.8
Grains and grain products	246,862	536,427	264,204	406,382	404,041	371,583	19.0
Tobacco, unmanufactured	168,076	131,535	167,251	136,075	135,971	147,782	7.6
Fruits and vegetables	103,741	103,123	124,101	148,377	133,278	122,524	6.3
Oilseeds and oilseed products	27,790	47,736	40,377	40,882	42,116	39,780	2.1
Other vegetable products	57,927	61,500	63,271	48,593	45,481	55,354	2.8
Total	1,508,371	1,941,301	1,576,923	1,647,233	1,581,424	1,651,050	84.6
Total farm products	1,867,098	2,280,381	1,891,739	1,907,864	1,815,504	1,952,517	
Total forest products	162,374	156,187	162,731	171,970	175,352	165,723	
Total farm and forest products	2,029,472	2,436,568	2,054,470	2,080,794	1,990,856	2,118,432	
Total domestic exports	4,224,000	4,778,000	4,653,000	4,867,000	4,773,000	4,659,000	
Farm products, percentage of all exports	44.2	47.7	40.7	39.2	38.0	42.0	
Farm and forest products, percentage of all exports	48.0	51.0	44.1	42.7	41.7	45.5	

Source: Commerce and Navigation of the United States.

TABLE II—UNITED EXPORTS OF FARM PRODUCTS—QUANTITY
(Fiscal Years, Quantities in Thousands)

		1923–24	1924–25	1925–26	1926–27	1927–28	Average
Pork and its products	1,000 pounds	1,934,189	1,400,149	1,172,685	1,012,689	1,046,279	1,313,198
Beef and its products	1,000 "	185,372	190,211	148,159	152,320	106,807	156,574
Dairy products	1,000 "	222,976	191,363	145,239	117,671	119,070	159,263
Cotton, including linters	1,000 bales	5,899	8,439	8,212	11,559	8,121	8,446
Bread grains, including flour	1,000 bushels	179,782	311,045	120,682	240,857	232,993	217,072
Coarse grains, including meals	1,000 "	45,844	55,111	94,919	54,515	64,000	62,878
Tobacco, unmanufactured	1,000 pounds	597,630	430,702	537,240	516,401	489,982	514,375
Fresh fruits (apples and oranges)	1,000 boxes	14,886	11,800	13,269	24,634	12,519	15,422
Dried and canned fruits	1,000 pounds	434,319	463,924	555,523	599,774	718,657	554,439

Source: Commerce and Navigation of the United States.

years 1923–24 to 1927–28, in value and quantity, are summarized in the tables below. While the items in the two tables are not identical they afford a basis for comparison. Certain major trends of this relatively short period that may, or may not, continue are apparent. With respect to exports from field crops hesitancy in prediction is expedient, for in any year exceptionally high or low yields per acre, a matter over which the farmer has but limited control, may raise or lower the surplus for export in a most unexpected manner.

The present situation with respect to geographic distribution is indicated by the outward movement, averaged for 1926 and 1927, of nine groups of products that constituted in this period about 94 per cent of our total agricultural exports. These are typical years in the sense that the production secured was about what may be expected in the near future, if reasonably favorable seasons are encountered.

Considering these nine groups as constituting our agricultural exports, for little interest attaches to the remainder, the portion of the movement consisting of each, was approximately as follows: cotton 47 per cent, grains and their preparations 23 per cent, tobacco 8 per cent, animal oils and fats 6.7 per cent, fruits and nuts 6.6 per cent, meats 4.7 per cent, fodders and feeds 1.8 per cent, vegetables and their preparations 1.2 per cent and dairy products 1 per cent. These percentages and those that follow are figured from values, not quantities.

Of the total exports of these products, Europe was the principal purchaser. The distribution by principal areas was as follows: Europe 74.2 per cent, China, Hongkong and Japan 10 per cent, Canada and Mexico 6.7 per cent, Cuba and other West Indies 3.1 per cent, Central and South America 2.8 per cent and other countries 3.2 per cent. Of the exports to Europe, the six countries, the United Kingdom, Belgium, France, Germany, Italy and the Netherlands took about 76 per cent. As in the past the United Kingdom was the best customer, taking about 34 per cent of the exports to Europe and 27 per cent of the total exports of the 9 groups of products to all countries. In this calculation our exports of wheat and wheat flour to Canada have been credited to Europe as no large part of them lodge in Canada.

The table below shows the percent-

TABLE III—DISTRIBUTION OF PRINCIPAL AGRICULTURAL EXPORTS FROM THE UNITED STATES
(Average 1926 and 1927)

	Canada and Mexico (Per Cent)	Europe (Per Cent)	West Indies (Per Cent)	Southern and Central America (Per Cent)	China, Hong-Kong, Japan (Per Cent)	Other Countries (Per Cent)
Cotton	2.6	79.9	....	.1	16.0	1.4
Grains and preparations	13.0	67.0	4.7	7.2	4.8	3.3
Meats	5.1	75.9	12.0	3.1	.1	3.7
Animal oils and fats	8.1	74.3	11.4	5.3	.03	.9
Dairy products	8.4	19.2	18.0	17.2	16.1	21.1
Fodders and feeds	2.2	94.1	2.8	.5	.05	.4
Vegetables and preparations	40.0	14.5	21.5	9.0	2.7	12.3
Fruits and nuts	22.5	67.6	1.5	3.6	1.5	3.2
Tobacco	3.2	70.6	.2	1.1	13.5	11.6

age of our exports of the nine principal groups of commodities to principal destinations, averaged for the last two years.

PRESENT STATUS OF AMERICAN AGRICULTURAL EXPORTS

The present status of American agriculture as an exporting industry may be roughly indicated by comparing the export movement of cotton, wheat and corn, meats and meat products and tobacco from the United States in 1910–14 and during three recent years with the shipment of these commodities from the chief competing countries in corresponding periods. A few tables will facilitate the presentation of certain pertinent facts. The figures shown, however, include a number of rather rough estimates.

In cotton the United States is still far in the lead as a source of supply, and promises to occupy that position for many years. Since the war the acreage has expanded rapidly in sections favorable for extensive methods, a system of cultivation of relative low cost. Texas and Oklahoma which produced less than 37 per cent of the total crop in 1919 produced 49 per cent in 1928.

Of the total production of the three principal cotton exporting countries, the United States, British India and Egypt, the United States furnished, on the average, about 72 per cent from 1910 to 1914, and 71 per cent from 1925 to 1927; of the total exports from these three countries the United States supplied in the two periods 71 per cent and 68 per cent. The production and exports of these three countries for the prewar and postwar periods are shown in the table below.

TABLE IV—COTTON PRODUCTION IN PRINCIPAL COUNTRIES
(1,000 Bales)

	Average 1910–14	1925–26	1926–27	1927–28	3-Year Average
United States	13,033	16,104	17,977	12,955	15,679
British India	3,585	5,230	4,205	4,913	4,783
Egypt	1,453	1,629	1,586	1,252	1,489
Estimated world crop	21,225	26,618	27,812	23,370	25,933

COTTON EXPORTS FROM PRINCIPAL COUNTRIES
(1,000 Bales)

	Average 1910–14	1925–26	1926–27	1927–28	3-Year Average
United States	8,840	8,110	11,162	7,781	9,018
British India	2,154	3,218	2,417	2,535	2,723
Egypt	1,444	1,409	1,536	1,345	1,430

Exports of corn from the United States have rarely amounted to as much as 5 per cent of the crop and the averages for 1910–14 and for 1925–27 (fiscal years) were only 1.5 per cent and .7 per cent. The minor part played by this country in the international trade in corn is shown by the table below. Of the total exports of the five principal exporting countries for 1910–14, the exports from the United States amounted to about 17.5 per cent and for 1925–27, to 7.5 per cent. In this connection it should be noted that the

exportation of an additional 5 per cent of the United States crop would, on the average, increase the supplies offered importing countries by 50 per cent or more. United States corn is largely converted into meats and meat products for foreign trade, but little moves out as grain.

tic demand has come to approximate the production. The table below indicates the difference in the trend of exports from the United States and other countries from 1911–13 to 1925–27. It will be noted that for 1911–13 Argentina exported about 4½ times as much beef as the United States and for 1925–27, over nine times as much.

TABLE V—EXPORTS OF CORN, INCLUDING MEAL
(1,000 Bushels)

	Average 1910–14	1924–25	1925–26	1926–27	3-Year Average
United States	41,409	9,791	24,783	19,820	18,131
Argentina	115,749	158,626	142,956	272,373	191,318
Rumania	46,998	24,631	21,239	55,923	33,931
Russia	28,354	6,836	7,867	9,033	7,912
Union of South Africa	3,952	6,992	40,380	1,430	16,267
Total	236,462	206,876	237,225	358,579	267,559

United States exports of beef and beef products shrunk from an average of 637,000,000 pounds a year for 1900–04 to an average of about 214,000,000 for 1911–13 and to 151,000,000 for 1925–27. Between 1911–13 and 1925–27 the aggregate average exports of the six principal shippers other than the United States increased from 1,775,-000,000 to nearly 2,460,000,000 pounds a year or by about .38 per cent. For these products more nearly than for any other important group our domes-

TABLE VI—EXPORTS OF BEEF AND BEEF PRODUCTS
(1,000 Pounds)

	Average 1911–13	1925	1926	1927	3-Year Average
United States	213,722	162,640	158,612	132,692	151,315
Argentina	940,300	1,694,255	1,682,805	1,841,703	1,406,254
Uruguay	119,675	377,687	366,418	370,000	371,368
Australia	301,882	381,233	308,042	112,193	276,156
New Zealand	80,543	138,672	97,742	105,300	113,905
Canada	6,448	36,312	29,340	59,130	41,594

In contrast with beef, pork has been for many years a major item of United States exports of farm products. Its present place as first among the surplus producing countries seems likely to be maintained, at least until the Argentine devotes a much larger portion of her corn crop to the feeding of hogs. European competition with swine is through bacon, rather than lard or fat pork. In recent years, however, the

competition from lard substitutes of various kinds has noticeably increased. The average exports from the four principal exporting countries prewar and during the last three years are shown by the table that follows:

TABLE VII—EXPORTS OF PORK AND PORK PRODUCTS
(1,000 pounds)

	Average 1911–13	1925	1926	1927	3-Year Average
United States	1,019,561	1,241,209	1,130,323	993,298	1,121,610
Denmark	298,086	462,925	460,191	616,323	513,146
Netherlands	139,916	254,464	204,391	306,312	256,726
Canada	47,694	156,717	115,821	87,427	119,988

EXPORTING OF TOBACCO

Tobacco, a mainstay in the early adventures of the Colonies in foreign trade, has continued to provide a substantial surplus for export. It is a crop readily susceptible of expansion under price stimulus. An acreage of 1,366,000 in 1910 was increased to 1,960,000 in 1920, partly as a result of an advance in the average farm price per pound from 9 cents in 1910 to 39 cents in 1919. A decline to 18 cents for 1926 brought the acreage down to 1,610,000 acres in 1927. For 1909–13 the average production was 996 million pounds and the exports amounted to 392 million pounds. For 1925–27, an average production of 1,304 million pounds provided exports of 492 million pounds. In both periods the proportion of the crop exported was about 38 per cent. The dependence of tobacco growers upon foreign markets is approximately as great today as before the war. As compared with other principal sources of supplies for international trade the United States is apparently holding its own as our exports have amounted to around 40 per cent of the estimated total world's shipments both before and since the war. The average production and exports of the United States and other important exporting countries, averaged for 1910–13 and 1925–27 and, in part roughly estimated, are given in the table below.

TABLE VIII—PRODUCTION AND EXPORTS OF TOBACCO, UNMANUFACTURED
(1,000 pounds)

	Average 1909–13		Average 1925–27	
	Production	Exports	Production	Exports
United States	996,087	392,183	1,304,116	492,138
British India	450,000	20,054	1,012,984	31,633
Europe	445,311	30,243	558,493	191,721
Russia	230,142	23,283	381,612	3,275
Japan	119,227	696	156,054	6,189
East Indies	140,580	161,265	153,768	162,481
Turkey	124,862	65,132	136,369	86,654
Cuba	73,666	37,643	66,069	37,407
Estimated world total	3,087,150	966,681	4,504,416	1,227,567

Public Interest in Wheat

For reasons not altogether purely economic, public interest in the exportation of farm products from the United States has been focussed in recent years more directly upon wheat than upon other commodities. The problem this crop presents for American farmers and for farmers of other countries of large surplus production is both fascinating and intricate. A few of the factors involved are indicated, but barely more than indicated, in the notes that follow.

For the five seasons immediately preceding the war (1909 to 1913) the five principal exporting countries (United States, Canada, Argentina, Australia and Russia) averaged to harvest an annual crop of about 1,884 million bushels from 155 million acres. For the last three crop years (1925–26 to 1927–28) their production from 180 million acres averaged 2,375 million bushels. Between these periods the average annual exports of Russia dropped from 165 million bushels to 28 million bushels. The United States, Canada, Argentina and Australia, on the other hand, increased the sum of their average shipments from 345 to 697 million bushels, we are using approximate figures, and thereby, not only overcame the decrease in the Russian movement, but raised the average exports of the five countries to 725 million bushels, a quantity some 215 million bushels above their prewar average. Offsetting factors were a decrease, as between the prewar and postwar periods under discussion, of some 90 million bushels in the average exports from India, Rumania, Hungary, Jugoslavia and Bulgaria and an increased absorption of foreign wheat by both European and ex-European countries. It is no doubt true, also, that some accumulation of reserves took place in the last three years, though there is little in the way of statistical data on this point. But taken by and large the available supply of wheat during the last three years, for the world as a whole, has been quite sufficient for the requirements of consumers who have enjoyed a purchasing power commensurate with their needs. Wheat growers, no doubt, would consider this appraisal too conservative.

For the crop year 1928–29 Europe, not including Russia, has a crop not far below the prewar average, while the United States, Canada, Argentina and Australia, as a group, give promise of a record breaking production. Fortunately, the world's capacity for bread is also greater than ever before.

As a brief summary of pertinent facts Table IX may be of interest.

Acreage

It will be noted that for 1909–13 the average acreage of the United States topped the combined acreages of Canada, Argentina and Australia by nearly 13,500,000 acres, while for 1925–27 the margin was less than 2,900,000 acres. The increase in the United States between these periods was only about 18 per cent, as against 21 per cent in the Argentine, 54 per cent in Australia and 126 per cent in Canada. For the last three years the United States has depended upon foreign markets as an outlet for only about 20 per cent of its production, while Canada, Argentina and Australia together have been obliged to dispose of 69 per cent of their production overseas. With these figures before us no estimates of the relative costs of production in these four countries are needed to show the greater ability of the wheat growers of Canada, Argentina and Australia, to make progress against such market levels as have prevailed in recent years. All of them have the advantage of cheaper land;

TABLE IX—WHEAT ACREAGE
(Thousands of Acres and Bushels)

	Average 1909–13	1925–26	1926–27	1927–28	3-Year Average
United States	47,097	52,255	56,337	57,698	55,430
Canada	9,945	21,973	22,895	22,460	22,442
Argentina	16,051	19,198	19,275	19,700	19,391
Australia	7,603	10,175	11,000	11,000	10,725
Russia	74,209	70,882	75,941	68,044	71,622
Total	154,905	174,483	185,448	178,902	179,610
Europe, Ex-Russia	72,800	68,800	69,000	70,200	69,333
WHEAT PRODUCTION					
United States	690,108	676,400	831,040	872,595	793,345
Canada	197,119	433,179	407,136	440,025	426,780
Argentina	147,059	191,139	220,827	239,162	217,043
Australia	90,497	113,443	160,858	109,925	128,075
Russia	758,941	819,744	749,026	859,789	809,519
Total	1,883,724	2,233,905	2,368,887	2,521,496	2,374,762
Europe, Ex-Russia	1,318,012	1,400,000	1,206,000	1,264,091	1,290,030
EXPORTS OF WHEAT AND FLOUR					
United States	110,000	92,000	206,000	191,000	163,000
Canada	95,600	320,000	305,000	305,000	310,000
Argentina	84,700	100,000	140,000	186,000	142,000
Australia	55,200	77,000	97,000	74,000	82,000
Russia	164,500	27,000	49,000	7,000	28,000
Total	510,000	616,000	797,000	763,000	725,000

Source: Department of Agriculture.

Canada and Australia, of better average quality; and Argentina, of cheaper transportation to foreign markets.

We do not concede that any of them have better farmers. Whether or not Canada now has a marketing system better adapted to her conditions than the United States is still an open question. It is certain, however, that none of them has a domestic market comparable in capacity and purchasing power to our own. Contradictory as the statement may sound, it is our wonderful domestic market that has kept our wheat growing industry in the export business, and not altogether to its advantage. Cut-throat competition of farmer with farmer for the premium prices paid by American millers for wheat of premium quality is probably the chief cause of our surplus of mediocre wheat for export. It is an unfortunate condition extremely difficult to overcome. It is in this connection especially that organization for marketing promises to be helpful.

EFFECTS OF TARIFF ON WHEAT

Reference may now be appropriately made to the tariff. Adam Smith called

wheat, "corn" and corn, "maize." They still do in England. When he offered 10 bags, when the demand was for 9, the bid for the tenth set the price for the lot. Or so runs the classic citation. True enough, of course, provided the corn in the ten bags was all alike. For the practical flour miller or wheat exporter, however, this old truism has little significance. He knows by hard experience that the wheat he must handle is not all alike. It is of five classes with several subclasses each having a number of grades and within a single grade of a single kind differences in protein content may cause twenty price distinctions. With respect to wheat, this is where the tariff comes in.

The axiom that a duty upon wheat will reserve the domestic market for domestic production, provided the rate is high enough to shut out imports, is generally accepted. That is the proved effect of the present rate of 42 cents a bushel. During the last three years imports into the United States for consumption have not amounted to a quarter of one per cent of the domestic requirements. The tariff has given the American market to the American farmer.

What has he done with it? He has supplied it with wheat of various kinds and quality, some in quantities less than domestic requirements would absorb, others in quantities exceeding domestic requirements. As a rule, competition between American millers has kept the price of the former well above an export basis while, at the same time, exporters have taken the latter at prices at which it could be resold abroad. Practically speaking, three classes of demand meet our wheat crops—a demand for wheat for feed, at a low price; a demand for wheat for export, at a better price; and a demand for wheat for domestic milling, at a price still higher. On the average about two-thirds of the supply coming on the market is milled for domestic consumption. This is the better two-thirds of the receipts, as measured by quality. As so judged, it is composed of good, better and best. In order to retain it for domestic use, millers must outbid exporters for it.

Competition among the millers for lots, particularly suited to their individual requirements, creates a scale of prices that begins at the export price level, or a fraction of a cent a bushel above it, and ends at a peak approximating the cost of duty paid importations of choice hard wheat from Canada. Or, in case our soft wheat crop is short, the top may be represented by bids for fancy red wheat at prices exceeding the cost of imported hard wheat. How much of the two-thirds or thereabouts of the receipts that are required for home use is sold at this or that point of the price scale depends primarily upon the proportion of different qualities in the supply, which varies from year to year. Broadly speaking, the quantities sold at each point of the price scale vary inversely with its height in the scale. Whatever the "economics" of wheat marketing may be, that is what actually takes place.

There has been as yet no compilation of market data sufficiently complete and exact to show for a series of years the net effect of the conditions outlined in the preceding paragraph upon our domestic wheat prices, as compared with export prices. Such a study would be worth while, if made by such an agency as the department of Commerce.

For such commodities as have been produced in quantities below domestic requirements tariff protection has, of course, been more effective than for wheat. On the other hand, with respect to cotton, which is produced in a measure far above domestic re-

quirements and of which the types and grades exported are fairly representative of the crop as a whole, a marked benefit from an import duty is hardly to be expected. In the case of corn, a crop showing exports rarely equal to 5 per cent of the production, such price comparisons as are available indicate that the tariff has tended to support the domestic market at a level somewhat above the international price level.

Demands for Legislative Relief

The prolonged depression of the wheat growing industry that began with the collapse of war induced prices in 1920, led, naturally enough, to persistent demands for Federal legislation for relief, especially from the prairie states. Three similar suggestions were put forward, which, to give them a name, will be here referred to as the straight government subsidy plan, the export bounty plan and the equalization fee plan. The first was not pushed, for farmers have not favored uncamouflaged subsidy even in their own behalf. The second, however, received consideration by the agricultural committees of both House and Senate, and the third was twice passed by Congress and vetoed by President Coolidge. All three had one character in common. The entire increase in the farmers' returns to be secured by either of them was to be derived solely from the American public, including the farmers themselves. At the present time, however, the "public" consists of about three non-farmers to one farmer.

A point generally overlooked is that the basic charge against the public under a straight government subsidy or an export bounty or the equalization fee plan is exactly the same when the three proposals are compared at the common level of an equal gain by the farmer.

To illustrate this point, let it be assumed that they are applied to wheat, that three-fourths of the crop is required for domestic consumption as flour and one-fourth of it exported, and that the farmer is to get 30 cents a bushel more for his crop as a result of their operation.

Obviously, a straight government subsidy of 30 cents a bushel would increase the farmer's returns by an equal amount, and impose a charge of 30 cents a bushel upon the public, funds for the payment of the subsidy being necessarily derived in one way or another from government revenues.

By the payment of an export bounty of 30 cents a bushel the returns from wheat sold for export would be increased by that amount and competition between dealers would lift the domestic price in the same degree, thus giving the farmer 30 cents a bushel more for his grain. The public, of course, would pay the full charge, 75 per cent of it in the higher prices for the three-fourths of the crop entering into domestic consumption and 25 per cent of it through the taxes necessary to provide funds for the bounty.

The equalization fee plan would give the same result but in a more round about way. Under this plan, through contractual arrangements with dealers or processors, a new buyer is, in effect, brought into the market who bids up the domestic price to 40 cents a bushel above the export price. At this advanced price 75 per cent of the crop passes into domestic consumption and the remaining 25 per cent is exported at a theoretical loss of 40 cents a bushel. To cover a loss of 40 cents a bushel on one-fourth of the crop the farmer would be required to pay a tax, termed an equalization fee, of 10 cents a bushel on all wheat sold. His net gain, then, would be 30 cents a bushel. The charge against the public in this case

is 40 cents a bushel on the 75 per cent of the crop sold for domestic consumption, which is equivalent to 30 cents a bushel on the whole crop. In other words, the charge against the public under this plan is exactly the same as under the other two. While the equalization would be paid by the farmer it is perfectly apparent that in so doing he would pay nothing that he had not previously extracted from the public through the creation of an artificial domestic price for the portion of the crop purchased by the public for domestic consumption.

None of these proposals now seems destined for expression in legislation. The proposals of Herbert Hoover, as outlined at St. Louis in November, remain to be tried out. The effect of their execution will be watched with interest. From them we may derive new and instructive lessons in the practicability of tariff protection for farm products produced in excess of domestic requirements.

The Tariff Policy of Creditor Nations

With Especial Reference to the Tariff History of Leading Creditor Nations During the 19th Century

By Max Winkler

Vice President, Bertron, Griscom & Co., Inc., New York City

> "Wer nicht von dreitausend Jahren
> Sich weiss Rechenschaft zu geben
> Bleib im Dunkeln unerfahren
> Mag von Tag zu Tage leben."

THUS writes Goethe, German poet and philosopher in his *West-Oestlicher Divan*, implying that one may obtain a better and more thorough understanding of the present and the future if he has succeeded in familiarizing himself with what has transpired in the past. It is, therefore, of interest to those of us who are endeavoring to unravel the mysteries of the problems, whether they be political or economic or social, which confront us today, as well as those with which we expect to be confronted tomorrow, to discover with the author of *Ecclesiastes* that "there is nothing new under the sun."

Early Tariff Policies

Almost two thousand five hundred years ago, in the year 509 B. C. we read [1] of a commercial treaty between Rome and Carthage, according to which the former agrees to renounce all commerce with lands lying beyond the "charming promontory" and that trade with Sicily may be carried on without restriction by each of the contracting parties. Rome is further privileged to trade with Carthage, Sardinia and the Lybian capital, but only under the supervision of government officials who "upon payment of the proper tariff" would guarantee the purchase price of the article or articles in question. We also read that, sixteen years later, in 493 B. C., Rome by virtue of the *Foedus Cassianum* granted to all members of the Latin Confederacy *commercium et connubium*, that is, free trade and free residence within the Confederacy. Later on, trade treaties and commercial agreements were entered into with other neighboring countries. It would appear that Rome, even at the height of her grandeur, was not what one might term today a protectionist country. Rome was the financial center of the world as far as the world was then known, and the *Forum Romanum* played in all probability as important a rôle then as does the New York Stock Exchange today. It was in Rome where the financial needs of her weaker neighbors were taken care of and Rome was receiving from all tribute, or what we might today call reparations.

Throughout the Middle Ages, the levying of import and export duties does not appear to have been general. Venice, for example, obtained by virtue of a commercial treaty concluded in 1082 free trading privileges throughout the Byzantine Empire. However, even other cities which had not entered into such trade agreements paid duties varying between only 2 per cent and 12 per cent of the value of the article in question. A little over two centuries later, in 1303, England enacts the *Carta Mercatoria* by which all foreigners are granted free merchandising privileges and free residence. Germany, on the other hand, or rather that

[1] See Schmoller, Gustav, *Grundriss der Allgemeinen Wirtschaftslehre*, Part II, Munich, 1920, pp. 659.

part of Europe which constituted pre-war Germany, levied rigidly protective rates on both imports and exports, especially on cattle, grain, lumber and metals. The importation of certain commodities was either prohibited altogether, or the levy was so high as to render import practically impossible. Whenever the home supply was merely sufficient to take care of the demand, the export of food-stuffs was completely interdicted. Austria at one time prohibited the importation of tin on the grounds that domestic production was not readily marketable within the country.

A little over 264 years ago, England became a distinctly protectionist country, for we read [2] that tariff "took on him the general Management of Commerce on the 18th of September, 1664." For almost half a century, England "enjoyed" the benefits of a protective tariff. The abolition of duties and the introduction of free trade is related in a very entertaining brochure published in London in 1713, and ascribed to Daniel Defoe, although some are of the belief that Joseph Addison was the author. I refer to "The Late Tryal and Conviction of Count Tariff," wherein Goodman Fact as plaintiff presents the following charges against the "Count":

1. That the said Count had given in false and fraudulent reports in the name of the plaintiff.
2. That the said Count had tampered with the said plaintiff and made use of many indirect methods to bring him over to his party.
3. That the said Count had willfuly and knowingly traduced the said plaintiff, having misrepresented him in many cunningly-devised speeches, as a person in the French interest.
4. That the said Count had averred in the presence of above five hundred persons, that he had heard the plaintiff speak in derogation of the Portuguese, Spaniards, Italians, Hollanders, and others; who were the persons whom the said plaintiff had always favored in his discourse, and whom he should always continue to favor.
5. That the said Count had given a very disadvantageous relation of three great farms which had long flourished under the Care and Superintendency of the plaintiff.
6. That he would have obliged the owners of the said farms to buy up many commodities which grew upon their own lands. That he would have taken away the labor from the tenants, and put it into the hands of strangers. That he would have lessened and destroyed the produce of the said farms. That by these and many other wicked devices he would have starved many honest-day laborers; have impoverished the owner, and have filled his farms with beggars, etc.
7. That the said Count had either sunk or mislaid several books, papers, and receipts by which the said plaintiff might soon have found means to vindicate himself from such calumnies, aspersions, and misrepresentations.

We might have welcomed a presentation of the defendant's case, although in the opinion of the author, the "Count" apparently had no case. We, therefore, find the following interesting outcome of the trial: "After a full (*sic*) hearing on both sides, Count Tariff was cast and Goodman Fact got his cause. . . . It is incredible how general a joy Goodman Fact's success created in the City of London; there

[2] Memoirs of Count Tariff, etc., London, 1713.

was nothing to be seen or heard the next day, but shaking of hands, congratulations, reflections on the danger they had escaped; and gratitude to those who had delivered them from it."

LATER TARIFF HISTORY

Although it would be of interest to set forth in detail the tariff history during the Middle Ages, and during the fifteenth, sixteenth and seventeenth centuries, of the early creditor nations, such as Venice and Florence and Genoa, of Portugal and Holland, of Austria and England, we shall content ourselves with referring the reader to the classic studies on tariff by Schmoller, to which I have already alluded above, to those by L. Chatin-Ollier in his *La Politique Douanière*, by Ludwig Lang in his *Hundert Jahre Zollpolitik*, by Geoffrey Drage in his *The Imperial Organization of Trade*, and to the excellent monograph on the tariff policies of Holland by G. W. J. Bruins in his *Die Grundlagen der niederlaendischen Freihandelspolitik und die jetzige Wirtschaftskrise*. A somewhat detailed discussion of the tariff policy of the leading creditor nations during the nineteenth century and the early part of the current century, in the course of which government borrowing began to assume a rather important aspect, might possibly prove of more immediate value. The countries which would have to be taken into consideration are especially Great Britain, France, Germany, and last, but by no means least, the United States.

GREAT BRITAIN

England may be said to have become a creditor nation *par excellence* after the Napoleonic wars, when the classic center of finance was transferred to London from Amsterdam, whither it had moved from Lisbon and Augsburg. Towards the end of the eighteenth century, England imposed, *inter alia*, heavy duties on grain by virtue of the so-called Corn Laws. This happened in 1773. In 1786 an attempt was made to modify the rigidly protective legislation of the eighteenth century. In the course of that year, a commercial treaty with France was entered into which provided for large reduction of duties in both countries. As a result of the outbreak of the war with France, this treaty was swept away. Between 1789 and 1815, England was distinctly protectionist. The more important legislative measures pertaining to tariff adopted in subsequent years are chronologically arranged herewith:

Year	
1816	Importation of wheat prohibited when price fell below 80 shillings.
1822	Level reduced to 70 shillings.
1824–25	Duties reduced on raw materials, especially wool, raw silk, flax; also on iron and manufactured goods.
1828	Duty on grain regulated in accordance with price.
1830	Agitation against Corn Laws led by Cobden and Bright.
1842	Marked reduction of duties on large number of articles. Income tax introduced to raise revenues lost through reduction of import duties.
1846	Corn Laws repealed.
1853	Further reduction in duties.
1860	Last remnants of protective duties disappear—Commercial Treaty signed with France.
1872	Sugar admitted free of duty.

Generally speaking, England has adhered to the principle of free trade more than any other power. During the above mentioned period, the financial needs of nations all over the world were taken care of in London. The countries whose bonds were underwritten and sold in the London market

were, as a rule, but little developed. The service on their debt to England proved occasionally a heavy burden on their treasuries. Defaults were made with great frequency. It is probably because of these numerous defaults that Manes calls the nineteenth century the "*Age of Financial Pathology.*" Yet it is within reason to assert that defaults would have been even more numerous if Britain had insisted upon the prompt payment of the debts due her, in specie. There was not enough of the yellow metal to take care of all requirements. Invisible trade between England and most of her debtor countries was negligible. Nor was it feasible to introduce internal bond and stock issues of the countries in question into England, which very often viewed with considerable skepticism even the external bonds of these countries. Goods were therefore the only means at the disposal of debtor nations, of discharging their obligations to England. It may, however, not be amiss to state that the English might possibly have acted differently if these debtor countries had been in a position to flood the English markets with manufactured goods.

FRANCE

The tariff policy of France throughout the greater part of the eighteenth century was also restrictive. A breach in the system was effected in 1786 by the signing of a commercial treaty with England, referred to above. Between 1789 and 1815, the importation of manufactured articles from all foreign countries was prohibited. In 1860 a new commercial treaty was arranged with England, and a reduction ranging between 10 per cent and 15 per cent was effected on most manufactured articles. During the following six years, commercial treaties were entered into with a number of foreign countries, including Belgium, Germany, Italy, Switzerland, Sweden, Norway, Holland, Spain and Austria. Thus, a network of treaties was spread practically all over the Continent leading to marked freedom of trade and opening an era of freer international exchange. In 1881, France effected a new tariff policy and, eleven years later, a new and more highly protective general tariff was established, with high duties on agricultural products and raw materials, as well as on manufactured goods, on grain, animals, meats and a host of other products.

It appears somewhat curious that protection in France almost coincides with the beginning of the flotation of large foreign loans, notably Russian and Balkan, in the French markets—a policy contrary to that adopted by England. But may not these foreign loans be said to have been prompted primarily by political rather than by economic considerations? In other words, France was perhaps not so much concerned over the ability of her debtors to meet the service on their obligations held by numerous French investors as over the fact that these loans may at one time prove of far greater significance to the French nation. Subsequent events seem to bear out this view. To be sure, French bondholders have lost heavily in Russia and in the Balkans, but was the price too dear when we consider that these French advances have greatly contributed towards the preservation of the French nation? Would not Germany have overrun France at the beginning of the great cataclysm, if she had not been obliged to protect her Eastern frontiers?

GERMANY

The tariff history of Germany during the nineteenth century begins in 1818 with the adoption by Prussia of a general tariff. Important develop-

ments during the following years are referred to hereunder:

Year

1831–34 Zollverein (Customs Union) formed despite popular opposition.

1853 Commercial treaty with Austria providing for reciprocal reduction of duties.

1865 Commercial treaty with France resulting in important reductions of duties.

1879 Protective system reinstated—Duties raised on manufactured goods and agricultural products.

1892 Protective system moderately changed. Commercial treaties with a number of countries providing for reduction of duties in all directions.

Apparently, the reduction of duties effected by Germany in 1892 did not prevent German industries from assuming the great importance which they did assume, and France's industrial expansion does not seem to have been effected in proportion to the protective measures which she has adopted.

United States

The history of the tariff policy of the United States is beyond doubt the most kaleidoscopic. It may be said to have begun with the passage of the Tariff Act of 1789 which, while moderate as regards duties, was none the less protective in spirit. Important events which occurred in later years are presented in tabular form hereunder:

Year

1816 Tariff duties increased.

1824 Marked increase in duties effected.

1828 "Tariff of Abominations" so-called because of its numerous objectionable features.

1832 "Abominations" removed—Protective system deliberately and carefully arranged—South Carolina endeavors to nullify Tariff Act.

1833 Duties reduced.

1842 Protective system restored.

1846 System of moderate protection introduced.

1857 Further reduction in duties effected.

1860–61 Morrill Tariff Act passed providing for increase in duties.

1862–64 War Tariff introduced, raising duties materially.

1867 Increase in duty on wool and woolen goods.

1869 Increase in duty on copper.

1870 Duties reduced, especially on iron, but increased on steel rails and marble.

1872 More general reductions effected.

1873 Duties restored to former levels.

1882 Special Tariff Commission created by Congress.

1883 Revision and codification of tariff system.

1887 Protective system attacked by Cleveland.

1889–90 McKinley Tariff Act passed providing for increase in duties.

1894 Wilson Tariff Act passed providing for reduction of duties and the abolition of duty on certain articles.

1897 Dingley Tariff Act passed providing for increase in duties and reciprocity arrangements with other countries.

Tariff Rates

The rates of the United States are at present rigidly and unqualifiedly protective with rates appreciably in excess of those of even the most restrictive tariffs of European countries. The rest of the world is indebted to us to the tune of $15,000,000,000, exclusive of so-called inter-governmental loans which brings the total up to more than $25,000,000,000.

To meet interest and sinking fund payments on such an enormous total is a problem, the importance of which we cannot afford to ignore. We are as a re-

sult of the last election, which took almost the form of an appointment, committed to at least four and most probably to eight more years of a protective tariff. In the meantime, foreign loans are being sold here at the rate of almost $2,000,000,000 a year. The rest of the world has so far been eminently successful in meeting their debts to us promptly and faithfully. We must, however, take into consideration that these prompt and faithful payments were in many instances made possible only by new borrowing, that is, by the creation of new debts wherewith old debts were discharged. To be sure, a considerable part of the service is derived from such invisible items as tourists' expenditure and emigrants' remittances. Shipments of gold, while possible, must of necessity be restricted because the amount of gold available in the various debtor countries is not so large as to make feasible shipments of more than relatively small amounts.

The importation of internal issues would of course contribute towards a solution of the problem, and with the restoration of the gold standard in most countries, the matter has been made easier. We need no longer fear that the 60 marks which we receive today as interest on a German 6 per cent bond will be worth tomorrow only half of what they are worth today. However, the experience which many of our investors had with foreign currency loans and the huge losses incident upon such "investments" are still too fresh in their memory, and it will take some time before the foreign internal loan will become popular. Furthermore, being only novices in the art of investing abroad, we still prefer the "dollar" bond to the currency loan, and imagine that a nation is more likely to honor and leave intact its external loans than its internal obligations.

The case of the German Government increasing the rate on one of its internal loans, floated only recently from 5 per cent to 6 per cent, affords a good example. We might perhaps rightly contend that just as it was possible for Germany to raise the rate, it may at some time be found expedient to reduce it. Greece, for example, is reported to plan the reduction of the coupon rate on one of her internal loans, such reduction to affect all bondholders, whether Greek nationals or foreigners. Payments through merchandise might, and in all likelihood would, simplify matters and countries need not fear that low tariff or even free trade would impair or destroy their economic self-sufficiency.

Genuine competition is beneficial, is conducive to greater progress and is, in consequence, not to be feared. Artificially created competition, on the other hand, is admittedly a serious cause of market disorganization and may often lead to economic conflicts between nations. It is quite probable, that the experts who attended the World Economic Conference, which convened at Geneva last year, had these considerations in mind when they unanimously urged the complete abandonment of import and export duties, frowning upon any attempt to "divert trade from its natural channels by subsidies." One might perhaps argue that countries like England or Holland or Switzerland could increase their revenues by introducing protective measures. However, careful study will disclose that whatever might be gained in one direction would be lost in another.

Does High Protection Hamper the Repayment of Our Loans and Investments Abroad?

By George P. Auld

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IT is a prevalent fallacy that a high protective tariff in this country will hinder or prevent the collection of the interest and principal of our loans abroad.

This proposition is one of a family of dragons from the jungle known as the "transfer problem," that celebrated area of economic thought which was discovered at the time of the creation of the inter-ally and reparation debts, and which has caused the economists of a certain school serious misgivings as to the fate of any creditor country bounded on the north by Canada and on the south by Mexico.

Among the monsters are (1) the German-Export-Surplus-that-will-Eat-the-American-Manufacturer, (2) the German-Export-Deficit-that-will-Cheat-the-American-Investor, and (3) a close relation of the preceding, the-American Tariff-that-will-Cheat-the-American-Investor-after-strangling-the-German-Export-Surplus-that-would-otherwise-Eat-the-American-Manufacturer. Close examination reveals that these formidable creatures are only figments of the imagination.

Foreign Holdings

Let us first look at a few figures showing the size of our foreign holdings, the amount of the income from them, the collections already made on principal, and the net annual increase in the investment.

The amount of American private investments abroad at January 1, 1928, has been estimated by the Department of Commerce as ranging from 11½ to 13½ billion dollars, the mean figure being 12½ billions (of which about six billions is in bonds).[1] From this is to be deducted an estimated amount of 3.8 billions [1] invested by foreigners here (excluding holdings by aliens permanently residing here and foreign accounts in American banks), leaving a net foreign investment of 8.7 billion dollars. If we add to that an amount of 7.5 billions representing the present value at 4 per cent (approximately the average interest rate on the United States public debt) of the annuities payable to the United States under the inter-ally and other debt settlements (face value 11.5 billions) [2] we have a total of net foreign holdings of 16.2 billion dollars, distributed somewhat as shown in table on the following page.

From these figures it is noteworthy that our private holdings in Europe, estimated at about 3½ billions, are six-sevenths offset by Europe's holdings here, but that after adding the inter-ally obligations our financial stake in Europe is about 49 per cent of the grand total of 16 billions. Latin America comes next with 29 per cent.

Up to June 30, 1928, our loans to

[1] Trade Information Bulletin 552, 1928, p. 20. It is understood that the estimate of 11½ to 13½ billions is now being carefully revised. Higher estimates exist, but none, so far as known to the writer, which possess the authority of the Department of Commerce estimates. Concerning certain of them, the Department states that the compilers have not given due weight to "backwash," *i.e.*, subsequent re-sales and redemptions of foreign securities purchased year by year.

[2] Figures regarding debt settlements from Statistical Abstract of the United States, 1928, p. 208.

ESTIMATED AMERICAN HOLDINGS OF FOREIGN OBLIGATIONS AND EQUITIES AT JANUARY 1, 1928
(Based on Department of Commerce Estimates—see text)

	Millions of Dollars				
			Private Obligations and Equities		
	Total	Inter-ally Obligations	Our Holdings Net	Foreign Holdings Here	Our Holdings Gross
Europe	7,984	7,470	514	2,907	3,421
Latin America	4,647	....	4,647	125	4,772
Canada and Newfoundland	2,565	....	2,565	722	3,287
Asia, Australia and rest of world	1,000	....	1,000	20	1,020
Total	16,196	7,470	8,726	3,774	12,500

Germany (exclusive of purchases of internal securities) have been estimated at 1.1 billion dollars (of which 275 millions were taken in 1927).[3] Our holdings in Cuba are estimated by the Department of Commerce at from 1.25 to 1.5 billions; in Mexico at 1.0 to 1.25 billions; in Argentina at 450 to 525 millions; in Chile at 500 millions; in Brazil at 400 millions, and in Central America and Panama at 200 to 250 millions.

Before the war we occupied a debtor position on international capital account, estimated at a net figure of 4½[4] to 5 billion dollars. Consequently, on these estimates, in the 13 years after 1914 to the end of 1927 we exported capital to an amount of 23.3 billion dollars (*i.e.*, 4.5 former liability discharged, plus 8.7 present net private investments held, plus 10.1 billion dollars, representing the original capital amount of inter-ally loans before funding). The composition of this great outward movement of capital may be set down, roughly, and with a considerable item unaccounted for, as follows:

INDICATED EXPORT OF CAPITAL, 1915–1927

			Billions of Dollars
1915–18			
Export surplus of commodities, per Commerce Year Book, 1928, pp. 84, 86 (no estimate available regarding services), approximately			11.3
1917–18			
Alien property seized in the United States			.5
1919–27			
Export surplus of commodities, less import balance of services, as estimated by Department of Commerce (adjusted by the writer, see Chart A) before gold imports	6.9		
Deduct gold imported 1919–1927	1.1		
Less indicated unfunded debt created by us	1.0	.1	6.8
Amount unaccounted for (representing deficient estimates of our export surpluses above, and/or excess estimates of our pre-war net indebtedness, and/or excess estimates of our present private holdings abroad, and/or deficient estimates of foreigners' present holdings here)			4.7
Total			23.3

[3] Federal Credit Bank, Berlin (Reichs-Kredit-Gesellschaft) semi-annual survey at June 30, 1928.

[4] Harvey E. Fisk—The Inter-Ally Debts, Bankers Trust Company, 1924, pp. 307, 311.

Any increase over the estimates used as representing our present net holdings abroad would increase the amount of the unaccounted-for item of capital export, shown above at 4.7 billion dollars, and should, therefore, be accepted with reserve.

It will be seen from Chart A that for the year 1927 the income on our net private holdings of 8,726 millions was estimated at 514 million dollars, and the interest collections on the inter-ally debts were 160 millions, or a total of 674 millions. In addition we collected on principal during the year 304 millions of private debt and 46 millions of inter-ally debt,[5] or a total of 350 millions. As we made new loans and investments to an estimated amount of 1,038 millions, the net increase in our foreign holdings during the year was 688 million dollars.

The 1927 operations just summarized represent a certain increase over the average transactions for the years 1922 to 1927. During that period the interest, etc., collected on private capital abroad came to an estimated amount of 2,139 million dollars, or an average of 357 millions a year, and the interest collected on inter-ally debt was 909 millions, averaging 151 millions. During the same period, maturities and redemptions of principal amounted to 1,165 millions (912 private and 253 government) or an average of 194 millions a year. We made new loans and investments, however, to an estimated amount[6] of 3,986 millions net (at an average annual rate of 664 millions), so that, after redemptions, the net increase in our foreign holdings during the six years has been 2,821 millions, or an average of 470 millions a year, before offsetting an indicated average amount of 202 millions of unfunded debt created by us in favor of foreigners.

From these figures it is apparent that we have been successful, in the face of any and all alleged obstacles presented by the tariff or otherwise, in making very large collections on account of our foreign holdings. It is, of course, also apparent that our new investments have exceeded the amount of principal collected and in fact have been substantially equal (lacking only 227 millions) to the total return of both principal and interest. In the aggregate, therefore, we have made these collections by a process of what might be called refunding the principal and capitalizing the interest, although this would not be an accurate characterization of the transactions in detail. It is also evident that so long as this process continues, the service of the debts owing to us will be met without any difficulties of transfer in connection with the tariff or otherwise.

THE TRANSFER PROBLEM

It is at this point that those who see difficulties ahead in the matter of debt collection appear to the writer to go astray.

On the one hand, by drawing an analogy between a debtor nation in the world economic system and an in-

[5] On both interest and principal of inter-ally debts, we are due to collect in 1929 from the three principal debtors an amount of 198.1 million dollars (Great Britain, 160.6; France, 32.5; Italy, 5.0) and increasing sums annually thereafter. In 1942, the year in which the French payments reach their annual maximum (which continues until 1986), the amount due to be collected from the three countries will be 329.3 millions (Great Britain, 182.6; France, 125.0; Italy, 21.7). In 1983 when the British payments reach their maximum, the amount will be 388.8 millions (Great Britain, 187.4; France, 125.0; Italy, 76.4). The last payment of Great Britain is due in 1984, and of France and Italy in 1987, in which year Italy reaches her maximum payment of 81 million dollars.

[6] For 1922 to 1925 the estimates include securities only and do not include purchases of real property.

dividual debtor unable to meet his loans at maturity, they see a dangerous tendency in the present process of "refunding" principal and "capitalizing" interest, and are led to employ such terms as "sending good money after bad," "a race with compound interest," etc. The analogy is a false one. Our loans are made to the public authorities or solvent private enterprises of national communities which are economically fruitful and are presumed, generally with good cause, to be politically stable. These countries are debtor nations which, if the terminology of finance rather than economics is to be used, are thoroughly solvent, and merely lack capital for development or reconstruction. They are forming new capital of their own, but are plowing it all back into productive facilities and are demanding still more from abroad.

Where reliable estimates are available, and this is true of Germany, concerning which the question has been particularly raised, the facts show that the new productive equipment greatly exceeds in value the amount of the loans received.[7] These debtor countries, in short, are following the natural course with respect to intensification of their productive capacity which the United States as a debtor nation followed before the war. In the circumstances, the idea that we are "sending good money after bad" is an absurd one.

On the other hand, looking further ahead, the proponents of the transfer problem ask: what will happen when we are no longer lending abroad? Will it not then be necessary that we be paid by imports? And if that be admitted, what will happen, they ask, (a) to our manufacturers if we are in fact paid by imports (Monster No. 1 above); or (b) to our investors if our debtors cannot deliver the necessary amount of goods either because of defective producing capacity (Monster No. 2) or because their goods will be barred by a high protective tariff in this country (Monster No. 3)?

Now, it may be admitted that if we should no longer be lending abroad we shall have to be paid by an import surplus of foreign goods or services. It may further be admitted that it is quite possible to keep out foreign goods by a protective tariff. It is entirely conceivable that the duties imposed by the American tariff are already on a scale or could be adjusted to a scale such as would prevent an increase in our imports equal to the whole or any part of the maturities of principal and interest on our foreign holdings.

But the fact is that the prevention of an increase in our import of goods could not operate to prevent the collection of the debts. How, then, would they be collected? The answer is that they would be collected either through a further increase in the "imports" (technically such) of services (say, to our tourists abroad) or through a decrease in our commodity exports, or by a combination of the two.

The reason is this: We have been given the assumption (an entirely reasonable one) that at some future time we shall no longer be collecting the debts by the process of taking new securities. Now, this assumption is in all respects identical with an assump-

[7] The Federal Credit Bank (Reichs-Kredit-Gesellschaft), Berlin, in its semi-annual survey at June 30, 1928, placed the total of German foreign borrowings, commencing with the Dawes loan of October 1924, at 1.6 billion dollars (of which 1.1 billions were obtained from the United States), exclusive of foreign sales of German internal securities. In its survey at the end of 1927 the bank estimated the national savings for the three years 1925–27 at 4.8 billion dollars, after payment of 880 million dollars for reparations. A parallel estimate of Dr. Erich Welter, financial expert of the *Frankfurter Zeitung*, placed the national savings, after reparation payments, at 5.5 billion dollars (*New York Times*, January 9, 1928; see, also, p. 127 *The Mythology of Reparations* (Duckworth, London, 1928) by Robert C. Long, Berlin correspondent of *The Economist*).

tion that we shall no longer be placing an export surplus overseas in exchange for those new securities. And if the wiping out of that export surplus is not to be accomplished by an increase in commodity imports, it is certain that it will be brought to pass either by an increase in the import of services (of which the tourist item is the most important) or by a decrease in the export of commodities.

In the nature of things, as long as we continue to have an export surplus, we shall continue to take securities from abroad in settlement for it. That export surplus constitutes the surplus capital which we are supplying to debtor countries and against which, in the nature of things, those countries are issuing capital securities. And, to repeat our conclusion, when an import surplus takes the place of the export surplus, that import surplus, if a tariff prevents its being caused by an increase in commodity imports, will, in the nature of things, be caused either by an increase in the import of services or by a decrease in the export of commodities.

This case against tariff Monster No. 3 clearly applies with equal force against Monster No. 2, the other black beast of the investor. That is to say, assuming a failure of debtor countries to increase their exports to us, at that future time when we shall no longer be placing an export surplus of our own abroad, it is immaterial whether that failure be caused by a tariff wall erected here or by deficiencies in the productivity of our debtors. In either case we shall, by the hypothesis, have an import surplus, which is bound to arise from one or the other of the causes already named, and which will furnish the means of collecting the debts. As for Monster No. 1, the special terror of the manufacturer, it is sufficient at this point to suggest that so long as our manufacturers are able to keep the necessary tariff legislation on the books, there is no possibility at all of their being engulfed by an influx of competitive imports.

In short, there is in reality no transfer problem at all.[8] Debt collection will inevitably occur by one of two processes, viz.: (1) By means of "refunding," *i.e.*, by receiving new securities, or (2) by means of an import surplus. And neither process offers any threat either to our investors or to our manufacturers.

CAPITAL PRODUCTION AND DISTRIBUTION

The foregoing statement of reasons for regarding the three transfer dragons as purely mythical creatures is admittedly a bald one, and as it deals with a "problem" which is fundamentally a mere contradiction in terms, it partakes more of a dialectical disputation than of a concrete discussion of trade balances. If the argument were not opened up for more detailed consideration, the reader might be disposed to dismiss it as a tiresome piece of theory unrelated to reality. The fact is that the whole subject of international transfers (a discussion of which cannot well be restricted to the single question relating to the tariff) has suffered during the eight or nine years of its vogue from not having been brought sufficiently into relation with facts and experience. The international exchange operations involved in the question have rarely been discussed in the light of an examination of the world system of capital production and distribution, of which they are an integral part. Such questions as, what is the nature of an international "balance of payments" and what is its rela-

[8] This applies not only to the collection of foreign obligations owing to the United States, but also to the collection of the German reparation debt by the ex-allies.

tion to national wealth and income, have been largely ignored. If the answers to these and related questions could be clearly and simply formulated so as to be available in the front part of the mind whenever the transfer problem is mentioned, the superstitions and confusion of thought which it evokes would more easily be laid.

The world produces annually *x* dollars worth of tangible objects of wealth and consumes annually *y* dollars worth of tangible objects of wealth. In normal conditions, production exceeds consumption, and the difference between the two is the net new real capital formed during the year. The income account appearing as Chart "B" shows graphically that this new real capital formed during the year corresponds to the aggregate net income of all the population, *i.e.*, their gross incomes less their expenditures for consumption. In other words, this new capital, consisting of tangible objects of wealth, corresponds to the aggregate of the individual profits or savings of the population. It is further demonstrable, by means of a few simple balance sheets, representing the affairs of "F," farmer; "M," manufacturer; "L," laboring man; "B," banker; "D," doctor, and "M," movie star, that the ownership of this new unconsumed production or capital is divided up among the holders of it in fee, to the extent of their equities, and the holders of claims on the remainder, these claims being equal to the aggregate of all individual net holdings of debts (*i.e.*, debts receivable less debts payable) and cash (the holders of cash, in the form of bank notes and bank deposits, being *pro tanto* the effective owners of the tangible wealth upon which the banks hold claims in the form of debts receivable). In short, there is actual, tangible, real wealth somewhere back of the net assets or capital account of every individual, whether his assets are in the form of titles to real property, or of debts receivable or cash.

The amount of new capital produced in a country as a geographical entity is not the same as the amount produced by and for the account of the nation as a people. Chart "B" indicates that a portion of the gross income of a creditor nation (Nation A in the chart) is derived from sales of goods and services to foreigners and from earnings abroad on capital previously invested there. Similarly, a portion of the expenditures of a creditor population, or, let us say, of the American people, are made to foreigners for commodities and services which they furnish to us. So far as the collective account of our citizens with foreigners is concerned, all such expenditures are a deduction from our foreign income, and are therefore the measure of that portion which has been definitely alienated or consumed. What is left is that portion of our savings or new capital which has arisen out of our dealings with foreigners. These savings are in the form of tangible assets abroad. Such of these assets as represent our interest claims are new capital formed abroad by the borrowers through the use of the principal sums (or, in the case of public debt, saved, through taxes, out of earnings), and the assets are earmarked on their balance sheets as reserved for the American holders of the interest, dividend and rental claims.

The "transfer problem" raises the question as to the means of exchanging the net amount of American interest claims existing against foreign real capital, and ultimately of exchanging the claims representing the principal of the loans, for dollar cash constituting claims against American real capital. At the present time, this exchange is effected by the relending of this unconsumed production or real capital, say in

Germany, to other German borrowers needing capital. The new lender in America turns dollars over to the new borrower; the latter gets mark cash constituting a claim against German real capital by turning the dollars over to the old borrower, who pays them over to his American creditor. The new borrower has taken the place of the old lender in holding a claim against real capital saved in Germany and set aside for interest payments.

And, while the actual dollars paid for new securities by our investors have been used to satisfy maturing claims presented by the holders of Germany's existing foreign obligations, it is plain that such use of the dollars does not imply (though a popular fallacy has it so) an unproductive use of the loan. The dollars are mere exchange counters; the loan is essentially a loan of real capital saved in Germany. Whether the dollar counters are taken by our interest claimants, or (as also happens) by Germany's reparation creditors, the new German borrower is putting real capital to work, and, if the loan is a sound one from a credit standpoint, he is putting it to work productively.

Now, undoubtedly, the time will come when future increments of this new capital accruing in Germany for the account of American creditors will not be needed for productive employment in Germany. It will be surplus capital there, exportable as commodities either to the United States (where it will be exchanged for dollar cash suitable for paying those who hold claims against it) or to countries creditor to the United States (where it will be exchanged for dollar claims equally suitable for paying the American coupon holders) or to countries which are borrowing from the United States (where it will be exchanged for pesos, for example, which will in turn be exchanged with dollar-borrowers for dollars, with which the German debtors will pay their American creditors).

Up to the point where goods and services furnished to abroad are equal to goods and services received from abroad the foreign trade operations of a nation wash out against each other. Below that point, the nation is receiving a surplus of goods and services from abroad without compensating exports; above that point it is furnishing such a surplus without compensating imports.

In the first case it is a debtor nation and the surplus received represents its needs for new capital from abroad, for which it gives its obligations in the form of securities.

In the second case it is a creditor nation and the surplus represents a part of its true surplus or savings which the nation leaves abroad as a loan or investment, taking for it securities, as evidence of its equity in the capital thus left abroad. In the mechanics of this operation, certain cash transactions intervene to effect the settlement, viz.: in our case, the American supplier ships the goods or provides the services for dollars procured by his foreign customer directly or indirectly by the sale of securities to American investors.

The automatic economic checks on these operations—the assurance that over a longer or shorter period the surplus shipments (including services) will be substantially covered by the sale of foreign securities in this country—reside in the fact that the commercial operations and the financial operations represent the obverse and the reverse faces respectively of the same condition. That condition is the existence of a surplus of marketable production, which is identical with a stock of surplus capital seeking investment. As excess production, this surplus stimulates sales effort by our manufacturers

on the foreign market and provides that sales effort with the proper competitive weapon in the decreased costs resulting from large-scale production. As excess capital seeking employment, that same surplus stimulates the activities of our bankers in foreign fields and provides them with investment funds which can be disposed of at a rate profitable to the foreigner, even with the inclusion of a differential required by the investor to compensate him for the risks of distance.

Because of the superior conditions surrounding production in this country today, the per-capita amount of current savings or new capital produced by our citizens is greater than the per-capita amount produced by the citizens of other countries. It is a truism that since the war the current supply of new capital has been more abundant here than abroad. And, at the same time, the need for new capital for productive purposes has been more insistent abroad than here, particularly noteworthy in Europe for the purpose of reconstituting its industry, but also strongly felt in South America. On the other hand, before the war, supply was greater in Europe and demand was greater in the United States and South America.

Such conditions of unequal level of supply and varying intensity of demand, one country from another, are among the commonplaces of human experience, and the resulting commercial and financial relationships between country and country are as old as civilized man and as self-regulatory, in the broad, as the movement of the tides. England, France and Germany, before the war, regularly placing large annual surpluses abroad, held foreign investments to an amount which has been estimated by Mr. Harvey E. Fisk at the equivalent of 50 billion dollars, present-day values (*i.e.*, 33 billions pre-war); and neither then, as creditors on world current account, nor during the war, as debtors on current account, were they confronted with any problem of transfer with respect to the collection of the interest and maturities of principal on their foreign holdings.

Abundant supply of capital on the one side, whether in the United States today or in Europe before the war, coupled with strong demand on the other side, whether in Europe today or the United States before the war, work together in a ceaseless process of distribution and redistribution of capital throughout the world. To entertain the idea that this great process of economic fertilization can be of such futility as not to carry within it the means of making the necessary international settlements is to imagine something which not only has no scintilla of historical evidence to support it but is also inherently preposterous.

CATEGORIES OF CREDITORS AND DEBTORS

Arising out of the world distribution of capital there are four categories of creditors and debtors on international account, as follows:

1. Full creditor nation, *i.e.*, a nation (embracing all its citizens and government) which is a creditor on principal account for outstanding loans previously made to abroad (net, in excess of its own indebtedness to foreigners) and is also a net creditor on current international operations. It is lending abroad, *i.e.*, it is currently producing a surplus of new capital, over and above its domestic needs, and it is shipping this surplus abroad, taking securities in settlement therefor, and thereby increasing from year to year the amount of its creditor position on principal account.

2. Principal creditor-current debtor nation, *i.e.*, a nation which is a creditor

to the world on principal account, but is a debtor on current international operations. It is currently producing less new capital than it requires for domestic development. It is receiving a net balance of capital shipped in from abroad, for which it is making settlement by resale to foreigners of its investments abroad or by allowing the investments to run off at maturity without taking up new ones, or by delivering its own securities (in practice by all three means), the effect in any case being to reduce from year to year its net creditor position on principal account.

3. Full debtor nation, *i.e.*, a nation which is debtor both on principal account and on current operations. It is borrowing abroad and constantly increasing its net debt to foreigners on principal account.

4. Principal debtor—current creditor nation, *i.e.*, one which is debtor on principal account, but creditor on current operations. It is shipping a surplus abroad, with which it is repurchasing its obligations held abroad or acquiring foreigners' obligations, the result being a year by year decrease in its foreign debt.

As is shown in Chart C, the United States which before the war was a full debtor, Class 3, and during 1915 and 1916 was in Class 4, shipping a gigantic surplus abroad, in transition to Class 1, has for the past eleven or twelve years been a full-fledged creditor nation. Her net creditor position on principal account is, as we have seen, about 16 billion dollars, and this position is being increased at the rate of 500 or 600 millions a year.

England also, though debtor to this country on inter-ally loan account in the amount of 4 billion dollars (as well as debtor to us on current operations) is, in her net relation with the whole world, still a full creditor, as before the war. Her creditor position on principal account before the war has been estimated at about 30 billion dollars (present-day values, equal to about 20 billion dollars pre-war).

The 1927 earnings on British investments abroad were estimated by the Board of Trade at 1.35 billion dollars (about 85% of the 1913 earnings, after adjustment for difference in value of money). If this yield represents 6 per cent on principal, England now has 22.5 billion dollars invested abroad. (Her war debt to the United States of about 4.5 billion dollars is offset by her claims on Germany, France and Italy, and those claims are restricted by the terms of the Balfour note to sufficient to discharge the American debt.) It was estimated that, for the year 1927, England was a net creditor on international current account (after interest earnings and gold movements and before security transactions) in the amount of 480 million dollars.

France also now appears to be a full creditor nation. Recent estimates by M. Pierre Meynial (quoted in New York Trust Company "Index," October 1, 1928) place her net investments abroad at 3.2 billion dollars (4 billions gross, less 800 millions of foreigners' investments in France). Her inter-ally debts, amounting in all to 3.5 billions, at 4 per cent present value of the annuities or to 2.7 billions at 5 per cent (including 2.1 billions to the United States at 4 per cent or 1.7 billions at 5 per cent) are more than offset by her 53 per cent share of the reparation debt owing by Germany, the total of which may be tentatively placed at 7 to 9 billion dollars. In her position toward the United States directly France is in Class 4.

There appear at present to be no occupants of Class 2, "principal creditor—current debtor." During the continuance of the extraordinarily

UNITED STATES BALANCE OF PAYMENTS

	Millions of Dollars			
	1919–27		1927	
Exports:				
Surplus of commodity exports over commodity imports		12,741		548
Interest and other earnings on our foreign loans:				
Private (net)		2,319		514
Government (net)		909		160
Gold and currency (net)		...		154
		15,969		1,376
Imports:				
Services to our tourists (net)	3,186		528	
Services to objects of our charity and filial devotion (principally immigrants' remittances)	3,788		249	
Services and supplies furnished to the A. E. F., etc.	2,680		...	
Total	9,654		777	
Less net export of other services	535		71	
Services, net	9,119		706	
Gold and currency (net)	1,087		...	
		10,206		706
Export balance to be settled		5,763		670
Settlement:				
Securities, gross	9,231		1,038	
Less maturities and redemptions	2,506		350	
Securities, net	6,725		688	
Less open accounts, short term credits, etc., created by us in favor of foreigners (and/or errors in balance of payments estimates)	962		18	
Export balance settled by securities delivered to us		5,763		670

heavy current demands of the war, this class included the three great full-creditor nations of the pre-war era—England, France and Germany. It is the natural transition class from full creditor to full debtor, and France and Germany passed through it, bound in that direction. England's resources on international principal account, however, were sufficiently large not to be exhausted by her current deficits, and when the demands of war ceased she returned to her former position.

The position of full debtor, Class 3, is now the lot of Germany, Italy, Argentina, Japan, and generally of all our other debtors on principal account throughout the world for loans which we have made and are making to them. During the early post-war years France passed through this class into Class 4, coming into the latter category largely by reason of the heavy expenditures of foreign visitors to her battlefields, a circumstance in the process of her recovery which constitutes a most satisfying example of the compensations wrought by the natural play of economic forces. Now, according to M. Meynial, France has taken a substantial position as a full creditor. Her position as creditor on principal

HYPOTHETICAL UNITED STATES BALANCE OF PAYMENTS No. 1

(Based on 1927)

	Millions of Dollars	
Imports:		
Net services (actual), as before		706
Net commodities (hypothetical)		572
		1,278
Exports:		
Gold and currency (actual), as before	154	
Interest, etc. (actual), as before	674	
	—	828
Hypothetical import balance to be settled		450
Settled by us by delivering securities as follows:		
Foreign securities maturing (actual) as before	350	
Additional securities delivered by us (hypothetical)	100	
	—	450

account came about in part as a result of the "flight from the franc" before its stabilization. How secure this status may prove to be is as yet problematical.

Class 4 is the transition class between full debtor and full creditor, the one into which Germany, assuming that she is destined to reoccupy her pre-war position, will sooner or later enter. In that class, a net exportation of capital on current operations is involved.

INTERNATIONAL SETTLEMENTS

Let us now look at some actual trade balance figures so as to see concretely why it is inevitable that the maturities of interest and principal on loans owing to us by solvent debtors can always be collected in dollars, whatever the position of international trade. Take first the balance of payments of the United States over the period 1919–27, as shown in Chart A. A summary of the operations of the entire period (which vary considerably in their complexion between the years prior and those subsequent to the end of 1921) and of the 1927 operations is given in the table at the top of page 190.

In 1927 the net movement of capital amounted to an export of 688 millions (against which we took securities) or, more correctly to 670 millions, after offsetting short term credits, etc., created in favor of foreigners (presumably representing, among other things, money borrowed here by foreigners and left on deposit in our banks). Our interest earnings and maturities of investments were swallowed up in and collected by this process of reinvestment.

Now, if that export of capital in 1927 had not materialized—if we had had in fact a net import of capital to an amount, say, of 450 million dollars, it is obvious that our interest earnings and investment maturities would have been collected against that import of capital, which would have rendered the necessary dollars available to the nations exporting the capital to us. Our balance of payments might conceivably have looked as shown in the table above.

If, on another hypothesis, our import balance had been any sum less than the 350 millions of our maturing foreign investments, or, say 75 mil-

lions, we would still have taken new securities in the amount of 275 millions for the excess of our claims on abroad. Thus:

HYPOTHETICAL UNITED STATES BALANCE OF PAYMENTS NO. 2
(Based on 1927)

	Millions of Dollars	
Imports:		
Net services (actual), as before		706
Net commodities (hypothetical)		197
		903
Exports:		
Gold and currency (actual), as before	154	
Interest (net) (actual), as before	674	
		828
Hypothetical import balance to be settled		75
Settled as follows:		
By delivering foreign securities matured (actual), as before	350	
Less new foreign securities taken by U. S. (hypothetical)	275	
		75

In other words, any so-called import balance arrived at as above, which is less than the amount of our maturing investments, is an import balance in name only.

In the above case, we would really have had an export surplus of 275 million dollars, which would be arrived at in the table by including the maturing investments among the exports. This balance would have been settled by taking new securities. Why the maturing investments are in reality an export of capital will be discussed under the next hypothetical variation of our 1927 balance of payments.

It is suggested as one of the dilemmas posed by the transfer problem that we might have neither a net exportation of capital nor a net importation of capital. Under this hypothesis, our current account with the world is conceived to be "in neutral," and the posing of such a hypothesis leads to the supposition that our interest and redemption claims could be settled neither by means of re-investment nor by means of an import surplus. Let us try to display this graphically:

HYPOTHETICAL UNITED STATES BALANCE OF PAYMENTS NO. 3
(Based on 1927)

	Millions of Dollars	
Exports:		
Gold and currency (actual), as before		154
Imports:		
Commodities and miscellaneous services (net) (hypothetical)		154
Hypothetical balance before investment earnings and maturities		0
Interest (actual), as before	674	
Investment maturities (actual), as before	350	
Total claims to be settled		1,024

Now, the only way in which this hypothesis of a neutral position on our international account can be stated is to assume, as above, that the claims for interest earnings and redemption of securities amounting to 1,024 millions are not exports of our capital, for which foreigners would naturally issue new capital securities and deliver them to us in settlement. But the fact is that these items do represent genuine export movements of capital, and the hypothesis that a nation which occupies a creditor position on principal account can be in neutral on current account is an absurdity. In the above position, we would in fact be taking securities in settlement.

The reason for this is apparent from the discussion relating to Chart B. The figure of 1,024 millions represents 674 millions in new capital produced abroad and set aside for our account to meet our interest claims and 350 millions of old capital abroad similarly segregated on foreigners' balance sheets and reserved to satisfy our claims for repayment of principal. Cash to this amount would be withdrawn at maturity dates from the bank accounts of the respective enterprises (if solvent), and placed to the credit of our nationals (or collecting agents) in foreign currencies in foreign banks. The claims have become liquid; in the form of bank deposits they now represent free, liquid capital. Now, either there is or there is not a demand in those countries for that free capital. If there is no local demand for it, it is surplus capital for export. But if there is a demand for it, superior to the demand in the United States, the capital issues market will reflect that demand, and in that case American nationals will "export" their liquid claims by releasing them to the nationals of the debtor nation in exchange for new long-term securities, constituting immobilized, *i.e.* deferred, claims.[9]

In the circumstances which we are discussing, the latter alternative governs. For, by the hypothesis, none of the intensification of export activities associated with a condition of surplus capital has been set up in the debtor countries; in other words, exports from those countries to us have not, by the hypothesis, been created. If they had been, our claims would have been settled by the movement of commodities into our country and the question as to how they were to be collected could not arise. It follows that these deposits standing to the credit of our nationals abroad will be in demand for productive employment abroad, and new capital issues abroad will be created to take them up.

It is plain from the examination of the three hypothetical balances of payments, which show all typical variations, that there is no dead center where we shall be taking neither new securities nor imports from the rest of the world in settlement of our claims. Stated the other way round, the rest of the world will in all cases meet our claims either by borrowing dollars (and there will be no question of bor-

[9] Stated in another way, more especially from the standpoint of presentation of a balance of payments table, the purport of the foregoing is this: There are two options as to how to show the return or export of matured securities by the creditor country for collection, viz., (1) Show it as a deduction from the settlement which the debtor makes in the form of new securities for the new capital exported to him by the creditor, or (2) Show it "broad," as accountants say, *i.e.*, add it to the creditor's balances of real capital exported.

The two options are of course equivalent in result. No. 1 is more usual and has the advantage of showing all security transactions together. No. 2 is useful for the purpose of bringing out more distinctly the real nature of the transaction as an export by the creditor of claims on capital, formerly deferred, which have become liquid, such export of liquefied claims being settled for by the acceptance of new deferred claims.

rowing to cover a deficit, since the necessary real capital will have been set aside by the individual debtors) or by exporting to us goods or services which will create offsetting dollar claims.

There is no such thing, then, as our being in a position on current account where we are neither exporting a surplus to The Rest of the World nor importing one from The Rest of the World. It is axiomatic that if, in our present condition (call it condition A), we are creditor on current account to The Rest of the World, The Rest of the World must be debtor to us; and if (condition B) we should be debtor on current account to The Rest of the World, the latter would be creditor to us. This is equivalent to saying (condition A) that if we have a surplus of capital, The Rest of the World must have a shortage of capital, and (condition B) if we have a shortage of capital, The Rest of the World must have a surplus.

It is evident from this that surplus of capital and shortage of capital are relative terms. When capital is more abundant or in less demand here than abroad (condition A), we have a surplus (whether we are prepared to acknowledge it as such or not) and are lending abroad, and Abroad has a shortage and is borrowing here. And the reverse will be true under condition B (with the technical difference that when we become debtor on current account, but are still creditor on principal account—Class 2—we shall return The Rest of the World's securities as long as they last, instead of borrowing on our own securities). Differences in interest rates constitute the index of these conditions of relative surplus and shortage of capital.

The securities issued by the debtor countries and purchased by investors of the creditor countries do not in practice for any given period correspond exactly in amount with the balance to be funded. The difference underfunded or overfunded as a result of countless daily exchange and financing operations the world over is taken up by the pool of floating international balances of short term debt and bank deposits carried at financial centers, the fine international equilibrium of which is maintained by the manipulation of central-bank discount rates and the transfer of gold.[10]

The settlement by securities is the significant factor in normal international economic relations. Gold is primarily required for currency reserve purposes. At the low ebb of Europe's credit position during the two years preceding the adoption of the Dawes plan in late 1924, our commodity exports were also at their low ebb. There was not at that time and there never has been a sufficient stock of free gold to pay for the legitimate demands of debtor countries for imports. At that time, it filled the breach to the extent possible and the United States received substantial gold imports, but since 1924 a considerable part of those imports has been redistributed as a commodity export (including 282 million dollars exported during 11 months in 1928 not shown in Chart A), largely to meet currency requirements abroad.

SETTLEMENTS WITH INDIVIDUAL COUNTRIES

The settlements which we have discussed relate to the aggregate settlement between a creditor nation like the United States and The Rest of the World as the combined unit on the other side of the account. How is it between the United States, which we will call Country A, and an individual

[10] The aggregate of such floating international balances held at New York, London and other international centers at the end of 1926 has been estimated by J. M. Keynes at 3 billion dollars. (*The Economic Journal*, London, December, 1927, p. 562.)

country, say B, on which A has claims for interest? We will take C to represent all other countries of the world together. A also has net claims for interest, etc., on C. Evidently, while A may be creditor on current account to B, a position indicating a settlement by B with securities, B may be creditor on current account to The-World-Other-Than-B (*i.e.*, A+C), a position which would not indicate the necessity of B's offering its securities for sale abroad. The following table shows the situation:

A already hold a large amount of B's securities and the market for them becomes unfavorable, due to a feeling that too many eggs are being placed in a single basket. In such circumstances settlement of A's credit balance of 100 will be made by B not with its own securities but with the securities of C.

Let us now suppose that, in a succeeding period, A's position remains the same, but B's balance on world account, instead of being plus 300, is minus 150. The current balances before security settlements will then be as shown on the following page.

HYPOTHETICAL TRIANGULAR BALANCE OF PAYMENTS—CASE 1

For a period

(Plus signs = export balances; minus signs = import balances)

	A United States (Class 1)			B One Country (Class 4)			C All Other Countries Together		
	With C	Total	With B	With A	Total	With C	With B	Total	With A
Balance of all current operations (including gold movements and claims for interest and maturities on principal account), before settlement by securities. .	+900	+1,000	+100	−100	+300	+400	−400	−1,300	−900

In what manner will the settlement by securities be effected between A and B?

In practice, the forces that day by day set up the balance between A and B which amounted over the period to 100 would also, day by day, operating through established trade and financial connections, be likely to effect the settlement by the sale of securities of B to the nationals of A. Theoretically this would be unnecessary, for as an alternative, B could, out of its 400 C securities acquired, resell 100 of them to A, whose total new foreign investment of 1,000 would, under this alternative, consist entirely of C securities.

Now this alternative, though normally a theoretical one, might easily have an important practical significance. Suppose that the nationals of

If B's securities are still unfavorably regarded in A, B will sell 150 of its securities in C, 50 for settlement of its balance with C, and 100 to obtain dollar exchange necessary for settlement of its balance with A. The latter settlement will be completed through the sale by C of 100 additional C securities in the A market (making 1,000 sold in all) in order to replace in C the funds loaned to B.

The objection which will be raised is that the securities of B, concerning which an unfavorable opinion is held in A, will not be saleable in C. But C is the world investment market, and there is no easily conceivable condition under which the securities of solvent enterprises of B offered on the in-

HYPOTHETICAL TRIANGULAR BALANCE OF PAYMENTS—CASE 2

	A United States (Class 1)			B One Country (Class 3)			C All Other Countries Together		
	With C	Total	With B	With A	Total	With C	With B	Total	With A
Balance of all current operations before security settlements............	+900	+1,000	+100	−100	−150	−50	+50	−850	−900

vestment markets of the world will not be taken up at a price, unless it is that B has become an economically unfruitful organism (an unheard-of condition with civilized nations), or the seat of a political or economic disturbance of some moment. If such a disturbance should in fact arise it would constitute a genuine impairment of B's credit, and unquestionably A's claims (along with the claims of others) would for a longer or shorter period be depreciated in value, or frozen or even in the end worthless. But such a situation would not arise from transfer difficulties. It would arise from credit factors, and its consequences would be chargeable to the risks of investment.

In normal conditions, the world investment market cannot fail to give financial expression to the international movements of real capital set up by operation of the law of supply and demand. In normal conditions, the securities of any current debtor country issued to formally complete the transactions which have made it a debtor are bound to find a market in world investment centers. Similarly, it is quite impossible that the investors of any great creditor nation should decline in the broad or for any extended period to complete the transactions which are making the nation creditor on current account. For special reasons they may decline (though probably only for limited periods) to take the securities of specific countries, but in their total purchases of the securities of all countries they will take the full allotment which the economic position of the nation dictates, unless one of two things should happen. A world cataclysm might occur; but if it did, the effects of it would be chargeable to the risks of investment and not to difficulties of transfer. Or the law of supply and demand might be repealed.

It is of course not impossible that the public authorities, either in lending or in borrowing countries, might shut down or attempt to shut down on international security offerings. But it has never been seriously suggested and seems extremely unlikely that any such embargoes would apply to sound loans and particularly sound industrial loans.[11] And the primary effect of any embargo would be to decrease the export trade of the lender and the import trade of the borrower, leaving the automatic claims for interest still covered. It would be idle to speculate on the effects in detail of a comprehensive embargo in any important country, applying to productive as well as to non-productive loans. By its comprehensiveness alone, it would tend entirely to suppress international economic relations. The character of such an embargo, it might be observed, would be wholly different from the partial restrictions resulting from protective

[11] The control or partial embargo in Germany on foreign borrowings has been directed against such municipal or state spending projects as are deemed to be extravagant.

tariff legislation, which leave wide channels open for the expansion of trade in substituted categories of commodities.

We have two other cases of hypothetical triangular balances of payment to consider. Let us suppose that Country A, still being a creditor on principal account to B and C, has become a debtor (Class 2) on current account with the world. B is a creditor on current account with the world, but A will not take her products on account of their competitive character and B is consequently still debtor to A on current account. Thus:

HYPOTHETICAL TRIANGULAR BALANCE OF PAYMENTS—CASE 3

	A United States (Class 2)			B One Country (Class 4)			C All Other Countries Together		
	With C	Total	With B	With A	Total	With C	With B	Total	With A
Balance of all current operations before security settlements............	−1,100	−1,000	+100	−100	+250	+350	−350	+750	+1,100

HYPOTHETICAL TRIANGULAR BALANCE OF PAYMENTS—CASE 4

	A United States (Class 2)			B One Country (Class 3)			C All Other Countries Together		
	With C	Total	With B	With A	Total	With C	With B	Total	With A
Balance of all current operations before security settlements............	−1,100	−1,000	+100	−100	−150	−50	+50	+1,150	+1,100

In order to settle in this case, B either sells to A's investors her own securities or C's securities, as in Case 1, or takes dollar claims in the amount of 100 from C (in lieu of securities) to cancel her indebtedness to A, and the latter settles with C at a net figure of 1,000 by returning C's securities taken in previous years.

Now suppose that, A's position being unchanged, B becomes a debtor on current account with the world.

Settlement in this case presents no new points of principle. Nor would any further clarification result from assuming a set of cases, parallel with the four just presented, to illustrate the variation of B being in all cases a creditor on current account with A, instead of a debtor as shown above. In all such cases, A's claims would be settled by imports of commodities or services from B.[12]

THE TARIFF IN INTERNATIONAL SETTLEMENTS

An assumption more pertinent to the primary subject of this paper is that in the case of any given country (debtor on principal account), say Country B, a protective tariff in Country A will result, by shutting out imports, in keeping B in a debtor position on current account with A. Probably no one would suggest that any transfer difficulties possible of resulting from

[12] Settlements in harmony with the principles already stated can also easily be worked out, covering the variations where (in cases 1 and 3) B is in Class 1 instead of Class 4, and (in cases 2 and 4) is in Class 2 instead of Class 3.

CHART A—UNITED STATES BALANCE OF INTERNATIONAL PAYMENTS, 1919-27 (IN MILLIONS OF DOLLARS)
Based on Trade Information Bulletin No. 552, by Ray Hall, U. S. Department of Commerce.
(Data rearranged and adjusted by G. P. Auld. See notes.)

Years	(1) Merchandise Exports and Miscellaneous Commodity Items	(2) Merchandise Imports and Miscellaneous Commodity Items	(3) Commodity Balance	(4) Services to Tourists (Net)	(5) Services to Objects of Our Charity C and Filial Devotion (Immigrants' Remittances, etc.)	(6) Services to A. E. F., etc.	(7) Other Services (Net)	(8) Claims for Interests, Dividends, etc., on Investments (Net)	(9) Gold (and Currency) (Net)	(10) Balance Before Settlement	Settlement (11) Securities and Titles to Property (Gross)	(12) Less Maturities and Redemptions	(13) Securities and Titles to Property (Net)	(14) Balance Unfunded (−) or Overfunded (+) (and/or Errors or Omissions)
1919	+ 7,920	− 3,752	+ 4,168	− 50	− 600	−2,375	+ 93	+ 50	+ 251	+1,537	− 970 Pr. −1,648 G.	+ 515 Pr. ...	− 455 Pr. − 1,648 G.	+ 566
1920	+ 8,228	− 5,252	+ 2,976	− 150	− 700	− 305	+ 93	+ 50	+ 53	+2,017	−1,445 Pr. − 138 G.	+ 571 Pr. ...	− 874 −	−1,005
1921	+ 4,485	− 2,520	+ 1,965	− 200	− 500	...	− 17 + 40 M.	+ 80	− 767	+ 601	−1,044 Pr. ...	+ 255 Pr. ...	− 789 Pr. ...	+ 188
Total 3 Years	+20,633	−11,524	+ 9,109	− 400	−1,800	−2,680	+209	+ 180	− 463	+4,155	−3,459 Pr. −1,786 G.	+1,341 Pr. +	− 2,118 Pr. − 1,786 G.	− 251
Average, 3 Years	+ 6,878	− 3,842	+ 3,036	− 133	− 600	− 893	+ 69	+ 60	− 154	+1,385	−1,153 Pr. − 595 G.	+ 447 Pr. ...	− 706 Pr. − 595 G.	− 84
1922	+ 3,832	− 3,106	+ 726	− 300	− 400	...	− 9 + 50 M.	+ 242 Pr. + 109 G.	− 238	+ 183	− 747 Pr. ...	+ 78 Pr. + 31 G.	− 638	+ 455
1923	+ 4,167	− 3,781	+ 386	− 400	− 360	...	− 27 + 60 M.	+ 257 Pr. + 160 G.	− 244	− 169	− 5 Pr. ...	+ 23 Pr. + 91 G.	+ 109	+ 60
1924	+ 4,591	− 3,585	+ 1,006	− 500	− 355	...	+ 3 + 70 M.	+ 304 Pr. + 160 G.	− 308	+1,122	− 590 Pr. ...	+ 45 Pr. + 23 G.	− 522	+ 100
1925	+ 4,910	− 4,210	+ 700	− 560	− 300 − 218	...	− 13 + 75 M.	+ 355 Pr. + 160 G.	+ 72	+ 397	− 599 Pr. ...	+ 140 Pr. + 27 G.	− 432	+ 35
1926	+ 5,010	− 4,744	+ 266	− 498	− 46	...	− 25 + 71 M.	+ 467 Pr. + 160 G.	− 72	+ 105	−1,007 Pr. ...	+ 322 Pr. + 35 G.	− 650	+ 545

1927	+ 5,037	− 4,489	+ 548	− 528	− 206 − 43	...	+ 71 M.	+ 514 Pr. + 160 G.	+ 154	+ 670	− 1038 Pr. ...	+ 304 Pr. + 46 G.	− 688	+ 18
Total, 6 Years	+27,547	−23,915	+ 3,632	−2,786	−1,988	...	+326	+2,139 Pr. + 909 G.	− 624	+1,608	−3,980 Pr. G.	+ 912 Pr. + 253 G.	− 3,074 Pr. + 253 G.	} +1,213
Average, 6 Years	+ 4,591	− 3,985	+ 606	− 464	− 332	...	+ 54	+ 357 Pr. + 151 G.	− 104	+ 268	− 664 Pr. G.	+ 152 Pr. + 42 G.	− 512 Pr. + 42 G.	} + 202
Total, 9 Years	+48,180	−35,439	+12,741	−3,186	−3,788	−2,680	+535	+2,319 Pr. + 909 G.	−1,087	+5,763	−7,445 Pr. −1,786 G.	+2,253 Pr. + 253 G.	− 5,192 Pr. − 1,533 G.	} + 962

Plus signs=exports (credits); minus signs=imports (debits). Pr.=Private; G.=Government.

General Note. "The figures for 1919 to 1921 were based to some extent on studies made by Harvard University. The surveys of 1926 and 1927, being far more complete and using different bases for estimates and different classifications of them are not comparable with these earlier surveys."—Trade Information Bulletin No. 552, Investments and yield thereon, 1922 to 1925 represent securities only.

Merchandise Exports and Imports 1919–25 inserted by G. P. A. from Commerce Year Book, 1928, p. 86. Small adjustments were necessary to bring the balances into agreement with the Commodity Balances above (per Bulletin 552) and they were made in the import column, amounting to an aggregate decrease in imports of 227 millions, of which 152 millions were in 1919. These adjustments may presumably be taken to represent the net of miscellaneous commodity transactions.

Other Services. Items marked M. represent Motion Picture Royalties; those for the years 1921 to 1925 are inserted by G. P. A., per Department of Commerce Estimates, p. 13 of 1925 Balance of Payments. American Underwriters' Commissions on sales of foreign securities, estimated by Mr. Hall for 1926 at 81 millions and 1927 at 63 millions, have been included by the writer as an export of "other services" and not deducted from "value of securities" in Column 11. This leaves no net balance of "other services" in 1927 except Motion Picture Royalties.

Interest, Government, 1922 and 1923. Approximate amounts segregated by G. P. A.

Gold (and currency). The above classification of this item (by G. P. A.) will meet with objections. Under the more orthodox theory of a balance of payments, a balance would be struck after Interest (Column 8) and gold would be treated as a settlement item (or even as the sole settlement item); following that philosophy, the Balance before Settlement (for the nine years, for example) would appear in Column 9 in the amount of 6,850 millions (*i.e.*, the net total of the footings of Columns 3 to 8 inclusive) and Gold and Currency (1,087 millions) would appear as Column 10, as an item entering into the settlement, along with securities. The writer's reasons for bringing out the significance of the security settlement by means of the arrangement of items adopted in the above table will perhaps be apparent from the accompanying text. Gold items resulting from earmarking for the years 1922–25, per Federal Reserve Bulletin, have been inserted by the writer. The gold and currency total import of 1,087 millions, which takes account of earmarking items, 1922 to 1927, consists of gold imports of 1,119, less currency exports of 32.

Securities. Items of 1,648 millions, 1919, and 138 millions, 1920, are inserted by G. P. A., representing inter-ally loans made and obligations received, per Secretary Treasury Report, 1920, p. 334. Other items under Securities Gross are gross securities received, less resales and all offsets for net increases of foreign investments here, as shown in Bulletin 552. Column showing "maturities and redemptions represents maturities and redemptions on our foreign holdings, per Bulletin 552.

Balance overfunded (+) represents indicated short term debt created by us, and/or errors and omissions in balance of payments estimates. (No effect has been given above to Department of Commerce questionnaire *re* changes in international bank accounts. This questionnaire was abandoned in 1927 as unreliable.)

CHART B—HYPOTHETICAL STATEMENTS OF NATIONAL INCOME FOR A PERIOD

Income and Expenditure	(1) World Population Consolidated Income Account (Column 2 and Column 5)	People of Nation A (Creditor) Say One-half the World			People of Nation B (Debtor) Say One-half the World		
		(2) Total (Column 3 and Column 4)	(3) Domestic Account	(4) Foreign Account ("Balance of International Payments," for which securities are received)	(5) Total (Column 6 and Column 7)	(6) Domestic Account	(7) Foreign Account ("Balance of International Payments" for which Securities are delivered)
Gross Income:			Income from own nationals	Income from foreigners for A's Exports		Income from own nationals	Income from foreigners for B's Exports
From Sale of Commodities produced (including monetary gold)	39,875	20,000	18,000	2,000	19,875	18,000	1,875
Wages	30,000	15,000	15,000	.....	15,000	15,000	.....
Miscellaneous services	16,200	8,000	7,800	200	8,200	7,800	400
Earnings on capital	13,700	7,000	6,700	300	6,700	6,700	.....
Total	99,775	50,000	47,500	2,500	49,775	47,500	2,275
Expenditures for Consumption:			Payments to own nationals	Payments to foreigners for imports for consumption		Payments to own nationals	Payments to foreigners for imports for consumption
For Commodities consumed	36,450	18,200	16,500	1,700‡	18,250	16,500	1,750*
Wages	30,000	15,000	15,000	.....	15,000	15,000	.....
Miscellaneous services	16,200	8,200	7,800	400	8,000	7,800	200
Use of capital	13,700	6,700	6,700	.....	7,000	6,700	300
Total	96,350	48,100	46,000	2,100	48,250	46,000	2,250
Savings or new capital (plant and inventories), showing location thereof (*i.e.* at home or abroad), before imports not for consumption	3,425	1,900	1,500	400	1,525	1,500	25
Commodities imported not for consumption (including monetary gold), constituting a transfer of saved capital from foreign to domestic location:							
Add			175			250	
Deduct				175‡			250*
Savings or new capital, showing final location at home or abroad	3,425	Total Equity 1,900	At home 1,675	Abroad 225§	Net Equity 1,525	At home 1,750	Abroad Minus 225§
Consisting of plant and commodities:							
Produced	39,875	20,000			19,875		
Less consumed	36,450	18,200			18,250		
Balance not consumed	3,425	1,800			1,625		
Plus (nation) or minus (nation) rights to commodities obtained (A) or given (B) in exchange for net international balance of services	.....	100			100		
	3,425	1,900			1,525		

‡ Total Commodities imported, 1875. * Total commodities imported, 2,000. § Balance of Payments.

NOTE.—For simplicity, it has been assumed that the amount of commodities sold during the period exactly corresponded with the amount produced.

Relative size of figures used for various items is not significant.

Odd sums have been introduced in a number of instances merely that various balances might be readily distinguishable.

such action would need to be considered as long as Country A remained a creditor on world current account and was receiving settlement of its balances by taking new securities (and cases 1 and 2 confirm this). And we have now seen by an examination of Case 3 above that when Country A becomes a debtor on world current account, but is still a creditor to B on current account, settlement of the loan claims cannot be defeated.

The general assumption back of this, of course, is that while we may to a large extent shut out competing goods, we shall not attempt to suppress all international trade by shutting out non-competing commodities, including raw materials and foodstuffs, such as now form a substantial proportion of our imports.

Germany is the most significant factor in our loan situation. We have seen that our loans to Germany to June 30, 1928, are estimated at 1.1 billion dollars. The average rate on our investments in foreign securities being about 6 per cent,[13] this means an annual claim on Germany for interest and dividends of about 66 million dollars (exclusive of earnings on real property). In 1927 perhaps half of this was settled by offsetting balances of services. Our exports of commodities to Germany in 1927 were 482 million dollars and imports from Germany were 201 millions. The principal imports were as follows:

	Million Dollars
Furs, undressed	13.0
Cotton gloves	6.3
Works of art (100 years old)	4.1
Chemical wood pulp	3.7
China, decorated	3.5
Toys, including dolls	3.5
Colors, dyes, stains, etc.	3.4
Potash, chloride, crude	3.3
Gloves, leather	3.0
Potash, sulphate, crude	2.6
Manure salts	2.3
Cotton laces, machine-made	1.1
Rags for paper stock	1.0
Rubber, crude	.9
Plate glass, unsilvered	.6
Tobacco, unmanufactured	.5
Standard newsprint paper	.4

The competitive factor in our present import trade from Germany is relatively unimportant. Moreover, as has already been indicated, so long as we are producing relatively more capital than our debtors and collecting our claims by lending, it is obvious that the tariff has no bearing on the matter of debt collection.

When, however, the present condition is reversed by a large increase in the productivity of our debtors, it is to be assumed that a high protective tariff will force some portion of their new product which would otherwise be capable of competing on our home market into other world markets, where it will compete with our established export trade. World markets thus lost by our manufacturers of finished goods will presumably in large measure be compensated for by the normal expansion of the protected home markets.

Our heavy industries, whose exports are now equipping our competitors, will also have their compensations. The present importance of the exports of our construction and equipment industries is to be seen from the following list of our chief export items in 1927 (out of a total commodity export trade of 4,759 million dollars):

	Million Dollars
Cotton, unmanufactured	826
Petroleum and products	486
Machinery	436
Automobiles, parts and accessories	388
Wheat and flour	325

[13] Weighted average percentages for all foreign securities underwritten in this country for the four years 1924 to 1927 were 6.08, 6.10, 6.17 and 5.77 respectively.—*Trade Information Bulletin* 552, p. 21.

Packing house products	181
Iron and steel-mill products	161
Copper and manufactures	150
Tobacco, unmanufactured	140
Cotton manufactures, including yarns	133
Fruits and nuts	122
Coal and coke	110
Lumber	108
Iron, steel, advanced manufacture	73
Chemicals	73
Rubber and manufactures	69
Leather	54

When foreign industries, partly by reason of receiving our present exports, have been developed or reconstituted on a firm basis, their demands for our machinery and steel-mill products will decrease, or at least not increase so rapidly as in the past. At the same time, our relative shortage of capital, requiring all our new capital to be currently plowed back into new plant to keep up with the development abroad, will turn our industries and their product more intensively to domestic purposes. From these complementary causes, which will not in the least impair our demands for imports of raw materials and foodstuffs, our export trade might be expected to decrease relatively to our import trade. Thus an import surplus would be created, and our debts would be collected against it.

In 1927 our total imports of commodities were 4,185 million dollars, the principal items being:

	Million Dollars
Raw silk	390
Crude rubber	340
Coffee	264
Cane sugar	258
Paper and manufactures	149
Furs and manufactures	136
Paper base stocks	114
Petroleum and products	113
Hides and skins	113
Tin	101
Copper and manufactures	85
Fruit and nuts	85
Wool and mohair	83
Wool manufactures	79
Vegetable oils	79
Tobacco (unmanufactured)	75
Burlaps	67
Cotton manufactures, including yarn	66
Oilseeds	64
Lumber	64
Art works	60
Fertilizers	59
Chemicals	58
Cocoa or cacao beans	57
Diamonds	54
Flax, hemp, ramie manufactures	52
Cotton, unmanufactured	46
Silk manufactures	42
Vegetables and preparations	38
Tea	28

In this list, the scarcity of items which constitute genuinely important competition with established home industries is noteworthy. The protective tariff works, but having in mind the relatively underdeveloped and less efficient condition of foreign industry, protection does not tell the whole story. Much of the significance now attached to the idea of foreign competition on the home market seems exaggerated. And it may be questioned whether the importance of protection will be greater in the next phase than now. A shortage of new capital will mean a shortage of product generally, since capital is nothing else than product. In such circumstances additional product from abroad will be in demand, and the characteristic of that foreign product as competitive or noncompetitive will presumably be a matter of relative indifference to our industries.

That next great phase in the process of capital distribution seems likely to prove remote. The tide which turned in 1915 had run in one direction since the earliest days of colonial enterprise. It ran gently at first, but strongly (for those days) during a full half century before the war. We cannot guess the duration in time and the degree of intensity which will mark the present re-

verse movement before it reaches its flood. Our export trade—the export of our capital—seems bound to go forward with great strides to levels hardly yet imagined.

What will stop it? South America is to be developed and Asia is to be opened. And Europe will not be content merely with rebuilding her economic structure. In her scrutiny of the new world today, she sees here not only industrial methods which move her to emulation; she sees also a standard of living which impresses her common people as worth aiming at. This means in the long run higher wages. Improvements in methods will make Europe industrially a more efficient competitor on the world market, but a higher dividend to the worker will mean increased consumption. It is not at all certain that the time is near when Europe's demand for our products will fall off.

When and if such a slackening comes and other factors combine with it to produce a recurring phase in our history during which import balances will predominate, it seems reasonable to believe that protective tariff legislation can have no adverse effect on debt collection. Nor will the collection of the loans operate to stimulate imports, as is widely believed. The debts owing to us are merely the financial expression of past and present exports. It is our exports themselves which build up the productive power of our competitors. In that process debt collection plays no part at all, and the latter will take place automatically (given peace and the solvency of the individual debtors), in pursuance of economic laws which made themselves felt long before the emergence of the United States as a creditor nation.

Probably the wisest comment ever made on this whole subject is one attributed to a high official of our present national administration. The impossibility of foreign debt collection on account of transfer difficulties was being urged upon him. His reply was: "Those things work themselves out."

CHART C—INTERNATIONAL CREDITORS AND DEBTORS

	Pre-War	War Period	Present Time
(1) *Full Creditor Nation:* *I.e.*, a creditor on both principal and current accounts, adding yearly by investment of surplus abroad to existing principal of claims on rest of world	England France Germany		United States England France
(2) *Principal Creditor—Current Debtor Nation:* Reducing yearly its net creditor position on principal account by receiving import balances of goods and/or services, and returning previously taken securities		England France Germany	
(3) *Full Debtor Nation:* *I.e.*, a debtor on both principal and current accounts, increasing its liability on principal account by importing (borrowing)	United States		Germany Italy Argentina Japan, etc.
(4) *Principal Debtor—Current Creditor Nation:* Reducing its liability on principal account by currently shipping an export surplus abroad, receiving its own previously given securities back from abroad		United States	

British Imperial Preference and the American Tariff

By Ralph A. Young
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A PRECONCEIVED notion of a limited market plays a significant rôle in shaping the tariff attitude of the typical man on the street. He knows painfully well the precise meaning of competitive losses. The broad fact that the success of his competitors is an important factor in his own success, (since increasing the community's productivity, by which he will benefit, depends on their achievements as much as upon his), is entirely too abstract a concept to hold any consolation. Moreover, even if his own sales may in the long run expand with the prosperity of others, immediately he may suffer competitive losses and encounter actual business reverses.

The loss of a particular deal to a competitor is a very real loss from a business point of view. Of course, it is all to be regarded philosophically as part of the game, a more determined effort being resolved on next time. Especially is this true if the competitor is a fellow citizen. Should he be a foreigner, however, the loss is not resignedly accepted as part of the inevitable give and take in business. Something has taken place which is conceded to be unfair; something which runs counter to the traditional code, which violates the standards of the national group.

Emotion, bias prejudice commonly displace reason in the formulation of policies to meet the competitive inroads of the foreigner and his goods. The state, the only agency vested with sufficient authority to sanction and enforce a restrictive program, is called upon to enact protective legislation. Institutional associations and ideals which constitute the essence of nationalism are invoked to obtain popular approval. A tariff or possibly some other legal measure thus becomes the strategic device employed to outwit or harass the foreign tradesmen and to maintain the integrity of national business interests.

Foreign business men, however, have similar constitutions and emotions. They likewise conduct their business dealings in an atmosphere of nationalism. Consequently, when their goods are obstructed abroad by tariff barriers, they bring pressure on their own governments for similar protection, partly for self-defense, partly for retaliation. Tariffs enacted to create a business advantage in home markets thus have their inevitable repercussions. Such repercussions are reflected in further foreign tariffs and the latter in turn on still others. The complex processes of tariff construction are perhaps as important for their international as for their national aspects and entail endless consequences.

The international complications of tariffs and tariff-making are not always appreciated by proponents and legislators. They solve problems only to create new ones. The burden may be made to fall on the foreigner but the foreigner probably will act to retaliate. His motives would be plain enough, however consciously formed. A similar situation would underly all other tariff enactments and the tariff movement would proceed apace. Each tariff law is related more or less directly to every other tariff law. Hence the

pertinence of inquiring into the connections between the American tariff and the British policy of Imperial preference.

Present Empire Tariffs and Preferences

Imperial preference is a scheme for giving British or Empire-made products a tariff advantage in Empire markets. As one would expect, its application assumes as many aspects as there are different parts of the Empire. A brief review of the tariff laws enacted and the preferences granted by the major members of the United Kingdom will go a long way towards clarifying their character and their importance. We may start with Great Britain herself and then consider the dominions.

The United Kingdom—Although traditionally committed to a free trade policy, the British fiscal program of the post-war period has included a number of distinctly protectionist measures. The protective duties in the British tariff include the McKenna duties, instituted during the war with a few additions in recent years; the key industries duties imposed in 1921 and reënacted in 1926; the safeguarding duties imposed in accordance with the recommendations of committees appointed by the Board of Trade; and miscellaneous duties on hops, silk and artificial silk.

Pressure from colonial governments for preferential treatment of their products has been more or less insistent since the Colonial Conference of 1887. Not until the war, however, did Britain officially acquiesce in the demands of the Empire by granting the justice of the principle. Subsequently preference grants were included in her tariff laws. Today preferences of one-third are allowed on Empire products subject to the McKenna and safeguarding duties.[1] That is to say, Empire products of a certain character are permitted to be imported into Great Britain at a tariff rate one-third less than is charged others. In addition, preferences of varying amounts are allowed on Empire products subject to the tariff for revenue duties.[2] Since Empire areas are mainly agricultural rather than industrial, the preferences of the latter kind are plainly more beneficial to Empire production than those allowed under the McKenna and safeguarding duties.

Canada[3]—As the first dominion government to grant a preference to British goods, Canada's present tariff program is of especial interest. The Canadian tariff is of the three-decker type, with a low schedule for British-produced goods, an intermediate schedule for countries with which special treaties have been consummated, and a general tariff schedule applying to all others. The Canadian preferential tariff is applied to nearly the whole of the Empire except Newfoundland and Australia, and in the case of the British West Indies, even lower tariff rates are granted. A comparison of the Canadian preferential tariff and the general tariff indicates that a preference of from 10 to 12 per cent *ad valorem* is accorded to many important classes of British goods subject to *ad valorem* duties but the general range of preference is from 2½ to 17½ per cent. By a 1923 amendment, an additional discount of 10 per cent on the British

[1] Clocks, watches, motor cars and cycles, tires, musical instruments, cinema films, cutlery, gloves, lace, embroidery, hops, wrapping paper and vitrified and translucent pottery are subject to a preference of one-third; silk and artificial silk to a preference of one-sixth.

[2] Tobacco, cigars, cigarettes, snuff, chicory, cocoa, tea, coffee, wines and other alcoholic beverages and spirits, sugar, glucose, saccharine, preserved and dried fruits and condensed milk.

[3] See the Dominion of Canada, Bureau of Statistics, *Canada Year Book*, 1927–8, p. 470.

preference duty payable is allowed on direct shipment from the Empire to a Canadian port.

New Zealand[4]—New Zealand was the second self-governing area to enact a preferential tariff, her original preference grants dating from 1903. From 1907 to 1921, as many as a hundred and ninety-four British-made products were subject to preferences, and this number was further extended and the preferences widened under the tariff act of 1921 when duties were reclassified and rearranged in a three-decker tariff law. A revised tariff in 1927 raised the typical duties in the general tariff schedule under the 1921 act from 35 to 40 per cent *ad valorem*, while rates applying to imports from the United Kingdom were kept at around 20 per cent. New Zealand preference applies automatically to products of the United Kingdom but requires a special agreement for application to products of the rest of the Empire. Such agreements are in existence with Australia and the Union of South Africa.

Union of South Africa[5]—The third self-governing British territory to adopt the principle of Imperial preference (1903), the Union of South Africa, took steps in 1925 to modify considerably the measure of British preference allowed under her tariff system. Nevertheless, the principle was definitely reaffirmed as a fundamental factor in her general tariff policy, although it was placed upon a "benefits given for benefits received" basis. The older system had provided for a 25 per cent preference on imports from Great Britain and reciprocating colonies and possessions, or about 3 per cent of the value of the imports. The tariff act of 1925, however, created maximum and minimum scales of duties. The former were to apply to the imports from countries granting no special privileges to Union exports and to unspecified imports from countries making reciprocal agreements. The latter scale was to apply to imports from reciprocating countries where such a scale had been agreed upon. Preferential treatment on British goods was given through the application of minimum duties on a number of specified articles selected with due consideration for the needs of Union industries and Dominion revenues, as well as for the export trade of Great Britain and reciprocating dominions. The new system, it is said, gives a larger preference on a smaller number of items. The extension of preference, as is pointedly indicated by the tone of the act, definitely depends upon the character of Empire privileges accorded Union exports.

Australia[6]—The last of the dominions to grant the preference principle in her tariff (1908), although her representatives had advocated it at early Colonial and Imperial Conferences, Australia has been ardent in her endorsement of the principle in recent years. Like Canada and New Zealand, Australia's present tariff is a product of post-war legislation (in fact, a series of acts dating from 1920), and is arranged in three levels, the lowest of which applies to British goods. To be subject to preferences, the imports must have been shipped directly to Australia and either must have been manufactured wholly in the United Kingdom or contain at least 75 per cent of English labor or factory cost. In case they are

[4] See the Dominion of New Zealand, Bureau of Census and Statistics, *Official Yearbook*, 1928, pp. 33–6, and "New Zealand's Revised Tariff and British Trade," *Board of Trade Journal*, Vol. CXX, Jan. 5, 1928, p. 8.

[5] See De Kock, M. H., *Finances of the Union of South Africa* (Juta, Capetown, 1928), pp 205–10, and Union of South Africa, Office of Census and Statistics, *Official Year Book*, 1926–7, p. 587.

[6] See the Commonwealth of Australia, Bureau of Census and Statistics, *Official Year Book*, 1927, p. 211 and 252–3.

goods not made in Australia, the English labor or factory content may be as low as 25 per cent.

Post-war tariff acts have extended preference to 95 per cent of United Kingdom imports, whereas it had applied to only 65 per cent before the war. Moreover, the margin of preference has increased to about 12.9 per cent *ad valorem*. The average equivalent *ad valorem* duty under the intermediate schedules would be 31 per cent, while under the general schedules it would be about 44 per cent. These favors are not automatically extended to reciprocating dominions and colonies of Great Britain. Agreements are necessary to determine what schedules shall be applied, and these are made by the Tariff Board of Australia.[7] Such agreements are in force with the dominions of Canada and New Zealand, the Union of South Africa and the territories of Papua and New Guiana.

Concerning preference in the rest of the Empire, we need not go into great detail. The question has been left to the responsibility of local legislative councils in all the colonies and possessions. Their response in favor of the principle has been noteworthy and in virtually every case some sort of a preference is granted to United Kingdom products at least, even though it does not apply to imports from other parts of the Empire.[8] India, however, although having acquired full fiscal freedom and devoted her legislation to "discriminating protection," has not been willing to accede to the principle of preference in her tariff laws, despite the fact that the Indian Fiscal Commission suggested in 1923 that a Tariff Board included in its recommendations be empowered to see if any preference could be granted without detriment to Indian interests.[9]

EMPIRE PREFERENCES IN DOMINION TARIFFS

To anyone studying closely the tariff systems of the dominions, one thing is certain—protection of home industry comes first. If preferences are to be given, the duty upon British imports is made sufficiently high for general protective purposes. Then an addition is made for the intermediate tariff, a sort of good measure dose. Finally, slightly higher duties are established for the general schedule. Nevertheless, it would be far from the truth to say that the preferences of the Empire tariffs are not beneficial to British trade. No tariffs at all would of course please the Crown most, but if tariffs must exist, some gain is possible through preferences. A few high cost producers are forced out of business by the various tariffs, but a very definite competitive advantage is obtained by the most efficient British enterprisers over their foreign competitors through Imperial preference.

No satisfactory and comparative index of the relative Empire tariff burdens is available but such facts as are available may be profitably reviewed. That Empire tariffs are high is definitely indicated by the fact that customs duties in 1925–6 were 16.8 per cent of imports in Australia, 13.6 per cent in Canada, 16.7 per cent in India, 16.9 per cent in New Zealand, and 14.5 per cent in the Union of South Africa. Compare these figures with that of 14.5 per cent in 1926 for the United States, the highest of the high tariff countries, and with that of 9.7 per cent in 1926–7

[7] See Mills, R. C., "The Tariff Board of Australia," *Economic Record* (Melbourne), Vol. III, May, 1927, pp. 52–81, especially p. 64.

[8] For a list of preferences granted by colonies, see Committee on Industry and Trade, *Survey of Overseas Markets* (London, His Majesty's Stationery Office, 1926), pp. 551–3.

[9] Vokil, C. N., *Our Fiscal Policy* (Bombay, 1923), p. 136. See also a review of the report of the Indian Fiscal Commission, pp. 117 ff.

for the United Kingdom, one of the lowest of the low tariff countries, and they gain in significance. Certainly, when free imports are allowed for, it would seem clear that the burdens of Empire tariffs aside from the United Kingdom are by no means to be regarded lightly. Exporters to Empire areas are fully aware that they are not.

A British committee, the Committee on Industry and Trade, arrived at some suggestive figures for Empire tariff burdens in 1924 which are presented below. These may be compared with the few relevant indexes of tariff levels by the League of Nations as of 1925:

higher incidence on foreign imports with a slightly greater margin of preference on British goods.

One thing should be emphasized in passing. The index levels of duties on British goods apply only to goods from the United Kingdom. Although the various preferential schedules might be applied upon a reciprocity basis between the members of the Empire, still the *ad valorem* incidence of the duties might vary greatly, owing to the character of inter-Empire trade, the number of commodities subject to the duties and the height of the particular duties applicable.

INDEXES OF TARIFF LEVELS IN MAJOR DIVISIONS OF THE BRITISH EMPIRE

	Committee on Industry and Trade, 1924*		League of Nations, 1925,† *Ad valorem* Tariff Incidence (per cent)
	Ad valorem Level of Duties on British Goods (per cent)	*Ad valorem* Level of Duties on Foreign Goods (per cent)	
Australia	9.8	21.5	25.0
Canada	13.3	18.3 to 21.5	16.0
India	10.5	10.5	14.0
New Zealand ‡	8.5	20.5	....
Union of South Africa §	9.0	11.8	....

* *Op. cit.*, p. 545.

† *Tariff Level Indices* (Geneva, 1927), p. 15 (Method B1).

‡ Tariff revised, 1927, especially on foreign goods.

§ Entire tariff revision, 1925.

Since these figures were published, South Africa has made sweeping alterations in her tariff, bringing its incidence more in line with that of the Canadian tariff. New Zealand, too, has recently added to the *ad valorem* of her duties, but only with regard to foreign goods and with possibly a slightly lower incidence on British imports. Other indexes, however, closely approximate recomputations which might be made today, although such recomputations might show an even

COMMERCIAL VALUE OF PREFERENTIAL TARIFFS FOR EMPIRE TRADE

That preferential tariffs have been a boom to inter-Empire trade in general and British trade in particular cannot be definitely established. The statistical bases of all current contentions are scarcely adequate. At best they can only show that, from a trade standpoint, the Empire is materially interdependent, a conclusion which a casual observation of the following figures

(percentages of total imports and exports) will support:

	Imports from Empire (per cent)	Exports to Empire (per cent)
Australia (1925–6).....	56.5	52.8
Canada (1927)........	20.7	43.2
India (1926)..........	50.5	24.8
New Zealand (1926)...	71.4	86.7
Union of South Africa (1926)............	62.4	79.6
United Kingdom (1927)	26.9	42.6

This interdependence, however, coupled with modern tariff realities, does have an important bearing. If tariffs must exist, then, as we have pointed out, preferences granted by various parts of the Empire to Imperial and British products are bound to have a degree of commercial value.

As far as the United Kingdom is concerned, it is clear that the higher tariffs are in leading world markets, the greater the value of Imperial preferences to her products; and the more susceptible she becomes to pressure for the extension of tariff duties and the broadening of preferences. The pressure comes from two main sources. In the first place, British exporters, experiencing higher foreign tariffs, bring their influence to bear upon the government for the granting of favors to the Empire in order to prevent withdrawals of prevailing Empire preferences and to encourage new ones. In the second place, Empire areas finding their exports obstructed by foreign tariffs also exert pressure upon the United Kingdom to launch upon a more general scheme of protection. To be thoroughly persuasive, each dominion and colony (depending upon the interest it has) either grants goodwill preferences or withdraws existing preference advantages, pending British reciprocity.

The dominions and colonies all feel that they have much to gain by securing for themselves preëmpted markets, especially in the United Kingdom. They feel, furthermore, that present British preferences are valuable but inadequate, and seek to have them extended, each of course for the special products of its nationals. They have in mind some commercial advantage by means of preferences which will stimulate a more rapid economic development of Empire resources. Since such resources are in competition with those of other countries, an Empire-wide protection scheme, it is felt, is required to accomplish this end. Like most bargaining transactions, it is hoped that much may be gained with but little cost. Thus, in the future, Empire production would continue assured of its most important market, and would not be dependent upon the vicissitudes of foreign tariff alterations, alterations which become increasingly significant to Empire producers as they are made to include more and more agricultural items. This trend toward greater and greater agricultural protection, it may well be observed, has featured not only recent American tariff making but also tariff enactments in European markets.

EFFECTS OF THE AMERICAN TARIFF UPON EMPIRE PRODUCTS

To assert that an American tariff burden falls upon exports of United Kingdom produce is to assert the obvious. British production and exports consist mainly of industrial products and the American tariff has always been aimed primarily at this very class of imports, especially the present Fordney-McCumber Act. Despite this, the United Kingdom is the third most important exporter to the

United States. Her American exports, however, paid a heavy tariff tax, over 51 per cent (1926) being subject to duty, while the average *ad valorem* duty on all imports in the same year was 39.3 per cent. With the American tariff wall likely, if anything, to go up even higher on manufactures, it is not strange that agitation in the United Kingdom for a more extensive British tariff with which to retaliate and to offer Empire markets more advantageous preferences, should have become rather widespread. The issue which is bound to be prominent in British political controversy for many coming years has more than an obscure relationship with the American tariff.

Canada, the leading market for American products as well as the leading supplier of imports, has come to resent the American tariff very keenly, especially since the recent widening of its scope covers several of her important agricultural exports. Almost 30 per cent of imports from Canada were subject to duty in 1926. If wood and paper products were excluded from the total, over 54 per cent were dutiable. It is obvious that the higher the American tariff becomes and the more agricultural commodities are protected by it, the greater the degree of protection Canada will be inclined to afford her own industries; the greater the preferences she will tend to offer the United Kingdom and the Empire; and the more insistent will be her demands upon them for reciprocity. Although naturally possessing closely identified economic interests, Canada and the United States may permit their tariffs to play the invidious rôle of estranging those interests and, at the same time, lead the former to increasingly intimate tariff associations with the United Kingdom and the Empire.

While the United Kingdom and Canada are influenced most by the American tariff, other Empire areas are not unaffected. For example, over 56 per cent of the imports into the United States for Australia were dutiable in 1926; almost 36 per cent from New Zealand; practically 65 per cent from India; and about 47 per cent from the Union of South Africa. It would seem that these countries, with relatively undeveloped resources and commercial possibilities, already feel some pressure from America's tariff upon their trade, and it is likely that they will feel more in the future.

CONCLUSION

What could properly be described as an effective system of Imperial preferential tariffs has not yet been established throughout the Empire. Nevertheless, after a period of tardy development, the principle of preference has been accepted with virtual unanimity and substantial steps have been taken by every important section of the Empire, excepting India, to make some preference grants in its tariff laws. The entire movement has gained great momentum since the war.

Throughout the history of Imperial preferences, it is possible to find influences of the American tariff. Certainly, the latter has been important in the final acquiescence of the British to the principle, for British trade has suffered at the hands of the American tariff. Certainly, too, the American tariff has been of great significance in shaping the tariff program of Canada. While their part in developments in other parts of the Empire is less easily traced, they were hardly less influential, either through the direct pressure they exerted or as examples of national economic policies.

Questions may fairly be raised as to the practicality of any system of Imperial preference as an effective guide to Empire trade. Each section of the

Empire must necessarily adjust its tariff enactments to too many and too diverse local interests ever to achieve a satisfactory and workable basis for Imperial tariff organization. Regardless of its impracticality, additional measures of a preferential character may be expected in the future on the basis of the foundations which have been laid. There can be no question that the tariff developments in the United States will have an important bearing on them. How much will depend upon the manner and direction in which particular divisions of the Empire are affected.

The Franco-American Tariff Problem

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Recent newspaper dispatches having announced the re-opening of negotiations between the French and American Governments in regard to their tariff differences, it will be of interest to review the circumstances of last year's controversy and to see just what the situation is at the present time.

Franco-American trade in recent times has rested upon French legislation of 1910 which favored American goods in the hope of securing for French products at least part of the minimum tariff of the Payne-Aldrich Act. Certain American goods, instead of paying the higher French schedule as they might have been expected to do in the absence of any trade agreement between the two countries, were admitted at the minimum rates. These were goods coming under twenty-five items which had been favored previously. Other articles, listed in sixty-eight items, were also accorded the minimum schedule; while still others were privileged by being allowed to remain under the rates of the general schedule as it was prior to the 1910 increase.

Under this arrangement, in 1913, only about 3 per cent of the total American exports to France paid the maximum duties. These goods represented about 10 per cent of the dutiable imports into France from the United States. The years following 1910, however, showed a change in the character of American shipments to France, manufactured goods forming a larger proportion of the total. In 1919 about 34 per cent of American exports to France were paying the maximum rates. When in 1921 the French made their maximum rates generally about four times higher than the minimum, American goods were not affected, but were allowed to continue under the 1910 schedules.

Treaty of Commerce

As the present tariff difficulties between France and the United States were brought to a head by the treaty of commerce signed between France and Germany in the summer of 1927, it will be well to consider this agreement briefly.

By the Treaty of Versailles certain limitations were placed upon Germany as regards the tariffs she might set up against the Allied Powers. But in 1924 these provisions began to terminate and on January 10, 1925, Germany was no longer obliged to grant France most-favored-nation treatment. Hence a commercial agreement between the two countries became necessary. Negotiations were opened in October, 1924. It will not be necessary to go into the two provisional arrangements arrived at, beyond saying that they might have served as indications to the United States of what might be expected and as a warning to her that she would do well to look to her trade relations with France. But it will be of interest to outline the definitive treaty of commerce concluded by France and Germany August 17, 1927, since France put into effect a higher schedule of duties at the time of the treaty's conclusion and so subjected United States goods to greatly increased rates.

Mutual advantages were contrived so as to favor especially the principal branches of production in both countries. In France, agriculture received the greatest benefit, while the cotton, woolen, and silk industries, the ready-made clothing and footwear trades, the iron and steel and mechanical engineering industries, soap works and the perfumery trade, the table-glass and porcelain industries, also benefited by the reduction or consolidation of German rates. About two hundred German products, including foodstuffs, a small number of chemical products, automobiles, and musical instruments were accorded the benefit of the minimum French tariff in operation at that time. About seven hundred additional German articles were granted the new minimum duties established in the French decree of August 31, 1927. Articles included in this latter list were a large number of chemical products, jewelry, electrical apparatus, instruments of precision and toys. Complete most-favored-nation treatment, with certain exceptions, is to be mutually accorded after December 15, 1928.

This was the first instance since the war in which France had accorded most-favored-nation treatment. On April 23, 1918, France had announced her intention of denouncing all such treaties in which she was concerned, and since that time had followed the principle of demanding reciprocal concessions in her tariff bargaining. France, since the war, has been a constant advocate of "equitable treatment" as opposed to equal treatment, and consequently has had some difficulty in concluding tariff treaties wholly to her liking. She was reluctant to yield most-favored treatment to Germany in this instance. Germany was able to secure this favor only by yielding an extraordinarily wide range of modifications in the different categories of duties. It may be noted that in some cases the "concessions" made by France really represented an increase in duties since many of the new French rates are considerably higher than the minimum tariff had been. Germany apparently agreed to these conditions because it was only at such a price that the principle of the most-favored-nation and the fixed customs rates could be bought. This agreement provided for Germany a stable basis for her exports to France; and relieved her of some of the burdensome conditions with which she had been confronted since the war.

EFFECTS OF THE TREATY

As has been previously mentioned, France, at the time of concluding this treaty with Germany, also enacted a general revision of her tariff rates upward, making the upper schedule as a rule four times higher than the minimum. While the United States benefited from the Franco-German treaty to some extent because of its commercial treaty with Germany, the majority of the new German duties concern characteristic products of France and Alsace-Lorraine, mainly agricultural products, wines, and textiles, which are not shipped in quantity from the United States to Germany.

On the other hand, the United States was, by the treaty and the new French duties, subjected to serious handicap in many lines in the French market. In some lines the discrimination was so pronounced as to eliminate Americans from competition. In those classes in which American goods had been paying the minimum duties the effect of the treaty was to place Germany on an equal status with the United States, England, and others, as equal competitors in lines from which they had been largely excluded since the war. On an important range of

products, however, the preliminary instruction given to the French customs officials was to deny American products the new minimum duties established in connection with the treaty and granted to the goods of Germany, England, and other countries on a minimum status. On these lines—many of which from the United States had been dutiable at intermediate rates only somewhat higher than the minimum—products from the United States, as from other countries not granted minimum treatment in France, were subject to the new general duties, usually four times as high as the new minimum duties. The new minimum duties themselves, in most cases, were materially higher than the old French minimum rates.

France now found itself. Before considering the correspondence between the two governments which led to the temporary accord under which trade has been conducted during the past year, it will be valuable to consider the nature and extent of the trade between the United States and France as an aid to a better understanding of the diplomatic situation.

FRANCO-AMERICAN TRADE

The following table from *Foreign Trade of the United States in 1927*, Trade Information Bulletin No. 537, shows in briefest form the trade of the United States with France in recent years. The figures for 1910–14 and 1921–25 are averages:

TRADE OF THE UNITED STATES WITH FRANCE
(Values in millions of dollars)

	1910–14	1921–25	1925	1926	1927
Exports	138.8	265.2	280.3	264.0	228.7
Imports	130.1	147.9	157.4	152.0	167.8
	8.7	117.3	122.9	112.0	60.9

It was estimated that American shipments to France of an annual value of more than $10,000,000 would be affected by the new maximum duties, representing about 4.2 per cent of the total American exports to France. The principal classes of goods affected were: electrical equipment, heavy machinery, light machinery and instruments, hardware and other metal products, chemicals, leather, certain textiles, earthenware and glassware, and the range of specialty products.

The new régime went into effect September 6, 1927. On the next day the United States Government, through its representatives in Paris, entered protest against the unfavorable situation in which American trade with

While American exports to France have shown a growth, imports from France have declined, if the difference in the general level of prices is taken into account. The marked decline in the volume of the trade in 1926 and especially in 1927 is to be ascribed rather to business depression in France than to the unfavorable tariff situation.

In 1927 France stood fifth in the list of the customers of the United States; while the United States was the fourth most important customer of France. As a customer of the United States, France was led in importance by the United Kingdom, Canada, Germany, and Japan. France, in 1927, took 4.7 per cent of the total exports of the United States, as compared with 17.3

per cent by the United Kingdom, 17.2 per cent by Canada, 9.9 per cent by Germany, and so on. France has declined somewhat in relative importance in the share she takes of American goods, for in 1910–14 she took 6.4 per cent of the total American exports.

The share of the total imports of France which was supplied by the United States was in 1913, 10.6 per cent; in 1924, 13.9 per cent; in 1925, 14.3 per cent; and in 1926, 13.3 per cent. Whereas France, in 1926, derived from the United States about a quarter of a billion dollars of her import total of almost two billion, that is, as has been said, about 13.3 per cent, Canada's imports were two-thirds from the United States, or about 66.4 per cent. Other countries drawing a considerable share of their total imports from the United States were Mexico, 70.4 per cent; Cuba, 62.3 per cent; Brazil, 29.3 per cent; Japan, 28.6 per cent; Argentina, 25.4 per cent; Australia, 24.6 per cent; United Kingdom, 18.4 per cent and Germany, 16.1 per cent.

While space will not permit a detailed examination of the nature of the export trade of the United States with France, statistics readily available show that the preponderance of raw materials in this trade is striking. This is not to say that the United States does not also send important quantities of manufactured goods to France; but it is an important consideration in thinking of a possible tariff war. France is to no small degree dependent on importation of raw materials; while in only a few instances is the share France takes of any particular American product very large. In the ridiculously extreme supposition of a complete stoppage of trade between the two countries, the United States' position would be better than that of France. While France's exports are 9 per cent foodstuffs, 27 per cent raw materials, and 64 per cent manufactures, her imports are 66 per cent raw materials, 21 per cent foodstuffs, and 13 per cent manufactures.

The United States ranked first as supplier to France in 1927; as a matter of fact she has held that position for some years. Great Britain, Germany, Belgium-Luxemburg, Argentina, Italy, and Switzerland are the other chief suppliers of France.

When we turn to the import trade of the United States, we find that France ranks eighth among the suppliers to the United States, sending about $167,800,000 of goods in 1927. When the nature of the imports of the United States from France is considered it is seen that "luxury articles" make up a large share; and that more than 50 per cent of the total imports of several products is derived from France. Striking instances of this are seen in perfume and cosmetics, of which 78.9 per cent of the total comes from France; gold and silver manufactures, 68.3 per cent; mushrooms, 68.1 per cent; silk manufactures, 39.0 per cent. So the United States is clearly dependent on France for a very large proportion of her imports of certain classes of commodities. The important thing to note is that they are not such essential articles as are those for which France is quite largely dependent on the United States.

After the foregoing survey of the trade relations of France and the United States, we may now turn to the diplomatic situation as it existed after the going into effect of the new French tariff on September 6, 1927, following the conclusion of the Franco-German accord of August 17.

PROTEST OF THE UNITED STATES

As has been said, the United States immediately entered protest against the unfavorable position of its com-

merce. Modification of the new rates which favored Germany and were prohibitive to United States was asked. Considerable feeling was aroused in American business circles in Paris, where it was felt that the new tariffs were frankly discriminatory. On September 12 a draft of a proposed treaty of amity and commerce was presented to the French Foreign Office by the American chargé d'affaires. It is understood that this draft sought an unconditional most-favored-nation treatment.

France replied in an *aide mémoire* of September 14. After admitting that the new rates represented, for certain products, an increase over those granted to the United States in 1910 and 1921, it was pointed out that these previous arrangements did not rest upon any contractual obligation and that the 1921 decree had been motivated by exceptional circumstances, "particularly by the monetary position of certain European states," and that finally "the exceptional treatment which they implied for the United States was not in harmony with the constant increases in the American tariffs and the reënforcement of customs barriers practised by America since that time, to the detriment of certain specific products of the French trade." France asked in advance of negotiations that the principle of mutual concessions should be the basis of the treaty. France indicated that if she were to receive assurance on this point that she would be willing to make a 50 per cent reduction in the surplus rates operating against American products.

In its reply of September 19, the United States announced its surprise and disappointment at the attitude expressed by France and indicated that the American law which fixes the tariff on imports does not envisage the conclusion of a treaty of reciprocity. The American Government expressed its profound belief that "the only satisfactory basis of international trade relations is to be found in the domain of equal treatment of the trade of all nations," and said "any other policy can lead only to confusion and misunderstanding." It was stated that objection was made, not to any level of duties which might be applicable to all, but to discriminatory measures. "It is believed that a tariff designed for the protection of producers and the raising of revenue is not open to objection by other governments when it is applied equally to all." It was contended that there was no American discrimination against France because American rates were the same for France as for others. The French Government was reminded that Article 317 of the present American tariff law

> gives the Executive the right to impose additional duties on goods coming from a country which discriminates in its tariff against the trade of the United States.[1]

It was stated that the American Government was loath to increase its tariffs against articles imported from France and that it had refrained from doing so because of its belief that the French Government would

> see its way clear to the negotiation of a treaty guaranteeing general most-favored-nation treatment and to suspending in the interim its manifest discrimination against American products.

FRANCE REPLIES

The French answer of September 30 was a lengthy one. After denying

[1] Countervailing duties were soon imposed by the Treasury Department under the Act of 1922. This action was taken independently of the State Department; but after protests from France was rescinded during the course of negotiations. The penalty duties were on only three or four tariff items and were not in force sufficiently long for any effect to be seen.

the American statement that the principle of equality of treatment was the one now generally adopted throughout the world it was said, "The French Government cannot approve the presentation of French tariff law which the Government of the United States believed it its duty to make to it." It was noted that the French law of 1892 stipulated that "the minimum tariff may be applied to goods of countries allowing French goods to benefit by correlative advantages," following which it was stated, in reply to the American request for minimum treatment,

> the granting of the minimum tariff has never been considered by the French Government as the starting point of a negotiation which has secured for French export trade the necessary safeguards.

The granting of general and unconditional most-favored-nation treatment to the United States must be dependent upon assurance by the United States to French commerce of equitable conditions and possibilities of facilities. Reference to the debt situation was made:

> The United States cannot be surprised that France should wish, in order to safeguard its exchanges and commercial balance, to obtain contractual guarantees. She must do so in the interest not only of her monetary and economic restoration but also of her international engagements. As the American experts were the first to say in the Dawes plan, any country can only secure for itself possibilities of transfer by the sale of its goods. . . . France is not complaining of being discriminated against by the United States; what she is complaining of is being subjected, together with other states, to a restrictive régime which in view of the character of her production is more prejudicial to it than to other nations, and which, although applicable to everybody, has hit its commerce most particularly.

Complaint was also made of American customs administration and the "series of regulations of a sanitary or phyto-pathological nature which are often completely fatal to agricultural exports from France." France expressed the opinion that the United States was not barred by its legislation from making reductions in rates and pointed out that Section 315 of the Fordney Act gives the President the power, after an investigation of the possible differences in costs of production between articles, wholly or in part, the growth or product of the United States and of like or similar articles, wholly or in part, the growth or product of competing foreign countries, to change the classification and to decrease the rates of duty in such measure as may be necessary to equalize the costs of production. France hoped, in negotiation, to obtain reductions under this provision; and hoped that the sanitary regulations and customs administration might permit of alleviations beneficial to French trade.

France did not attempt to reconcile the conflicting systems of the two countries as a matter of principle.

> The American Government will doubtless recognize, . . . , that on the ground of principles and of systems a compromise can doubtless not be found between the opposing points of view which the legislation of each of the two governments obliges it to maintain; but on the ground of practical measures, however, the reciprocal good will of the two countries can easily show itself by provisional amelioration of the damages which each of them claims.

French Objections

France, in objecting to certain customs administration practices of the American Government, had reference to the practices of the Treasury Department Special Agents in France for the purpose of investigating French

production costs. France had objected that the United States demanded information from French companies which even the French Government could not require to be given it. French industrialists complained that giving the Americans access to their books endangered trade secrets and protested loudly. This difficulty in the negotiations was eliminated on October 21 by a ruling of the United States Attorney-General that it would not be necessary, under the Tariff Act, to conduct investigations of production costs abroad, and the announcement by the Treasury Department that the Special Agency service would discontinue operations in France after February 1, 1928.

France had also objected to certain agricultural sanitary regulations which operated to the detriment of French trade. Washington dispatches of October 21st announced that an arrangement between the State Department and the Department of Agriculture had been effected for coöperation in matters of quarantines imposed on plants, fruits, and animals from foreign countries. This arrangement was expected to enable the State Department to soften the restrictions on French products which had been complained of as unduly harsh by the French Government.

After further negotiations in a more conciliatory spirit, the governments reached agreement in early November, 1927, as to a temporary régime pending conclusion of a permanent commercial treaty. In return for the granting by France of most-favored-nation treatment as to 471 articles imported into France from America, the United States was to withdraw the Treasury agents and was to be supplied from French official sources with information as to French production costs. Two other main considerations were that the United States Tariff Commission should immediately begin an investigation of the possibility of reducing rates on French textiles, perfumes, and silks and that the American Government should remove so far as is possible existing sanitary, agricultural, and pharmaceutical restrictions which hampered the entry of French goods to America. Under this temporary agreement trade has been carried on during the past year.

In summing up the arrangement now in effect, it seems that almost all, if not all, in fact, of the concessions were made by France. Any concession made by the United States was one of principle; while the practical concessions were made by France. Each country, however, stands firm on its main principle: the United States, on equal treatment to all; France, on reciprocity. If the promised concessions are not made by the United States, France may at any time withdraw the present decree establishing lower rates on the 471 American products, and the situation will be as before.

EFFECTS

In an effort to ascertain the effect of the tariff controversy on the trade between the two countries, the writer made a study of trade statistics published by the French Government in *Commerce Exterieur de la France* for 1927 which would seem to indicate that the actual bearing of the question on commerce between the two countries was rather negligible. This was probably due largely to the fact that great quantities of shipments from this country to France during that period were placed in French warehouses and actually cleared into France only after the settlement was arrived at by which more moderate rates of duty were fixed.

From the writer's study he con-

cludes that while the French tariff change may have had some effect in some instances, in most cases it has not been sufficient to show decisively in the figures. In other instances the volume of trade in by-gone years has been no more consistent than that in 1927. Steam and other machinery showed some decreases; in the case of cotton fabrics the decrease was less decisive; no particular effect was evident with tools and metal products; machine parts show quite a decisive drop; coal tar products are contrary; chemical products show no consistent trend; nor does crockery and porcelain; prepared hides show no trend. In the case of instruments and scientific apparatus a decided decrease is evident. Taken all in all, for the products studied—those classifications which were affected by the four-fold increase in French rates—no special conclusions can be drawn from the French statistics.

As noted at the beginning of this article, the issue has only recently been reopened. France is irritated at what she regards as American delay in carrying out the provisions of the temporary accord and protests especially against American practice in arriving at valuations placed on French goods. France complains that since the withdrawal of the American Treasury Department agents, who were in France to ascertain production costs of French goods, American and not French values have been the foundation for tariff assessments. Tariffs that the French regard as already too high are paid on appraisals based on American wholesale prices on similar products.

In short, the controversy is in a very precarious situation. Things seem to be almost where they were before the conclusion of the temporary accord of November, 1927. One need not be much surprised if the French retract their ameliorating decree, leaving the issue wide open again. At least, it is safe to predict some very ticklish negotiations before a permanent commercial accord is concluded.

Italian-American Tariff Problems

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THE World War, which caused great changes in the life of all nations and brought about economic effects that were felt in every part of the world, could not fail to affect seriously the most vital and sensitive branch of a country's economic life—foreign trade. In particular the direction of trade the world over was necessarily and seriously affected by war conditions.

The foreign commerce of the Central Powers was practically destroyed, and this necessitated the establishment of new lines of trade, as far as possible, on the part of all countries formerly trading with them. The blockade of Germany and Austria-Hungary and, to a lesser degree, the bordering neutrals, in combination with all other disturbing conditions brought about by the state of war, paralyzed or seriously disturbed the commerce of European countries, both belligerent and neutral. The character, volume, and direction of the trade of all other important countries also suffered radical changes.

As a result of this exceptional situation, we witnessed during the European War a deep change in the economic and commercial relations between the United States and the European continent. The urgent need for war materials of every kind, the loss of some important markets of supply, the diminished agricultural and industrial production, coupled with an enormous increase in consumption in general, brought about a rapid and substantial increase in the exports of the United States and accentuated its industrial development. As a result, America became the most important source of supply for most European countries.

Since the war the rebuilding and resumption of trade along original lines has been the general tendency among European countries, though in some cases new economic channels formed during the conflict have been retained and to some extent still further developed.

During this phase of readjustment, tariffs—which represent the best means at the disposal of a government for encouraging or depressing its foreign trade—have played an important rôle. The difficult problems that have arisen in connection with the tariff upheavals which have characterized the economic policies of European countries since the war have been solved or smoothed out through the conclusion of commercial agreements. This means, however, has not been available with respect to commercial exchanges with the United States, and some of the tariff problems which have arisen between European countries and America since the war are still waiting for an adequate solution.

Italian-American Trade

As regards commercial exchanges between Italy and the United States, the war accentuated the dependence of the Italian economy on the American market. The cutting off of the German market—which before the war represented Italy's best source of supply and her best customer—coupled with the urgent need for foodstuffs, raw materials, and war materials, all of which could be obtained easily and

readily only from the United States, brought about a considerable increase in the imports into Italy of American products. On the other hand, the increased internal consumption and the decreased production of Italy, together with the difficulty and shortage of transportation, and the regulation of exports, contributed to reduce considerably Italian exports to the United States. As a result, the trade balance between the two countries—which had always been unfavorable to Italy—grew still worse with respect to that country.

Since the war American exports to Italy, though greatly reduced as compared with the years of conflict, have preserved during all the post-war period a level actually higher than the normal average of pre-war times.

Italian exports to the United States, instead, although they have shown some progress over the war period, have preserved the irregular character manifested in the years preceding the war. In fact, from a level of 136 in 1920, they decreased to 116 in 1922, went up to 167 in 1923, decreased again to 136 in 1924 and 1925, to 135 in 1926, but rose to 152 in 1927. As a matter of fact, however, Italian exports to America have surpassed their pre-war quantitative level in only two years, namely: during 1923 and 1927. This can be seen by making a comparison on the basis of the purchasing power of the dollar.

The following table gives the value —in thousands of dollars—of the goods exchanged between Italy and the United States during the years 1913–1927:[1]

COMMERCIAL EXCHANGES BETWEEN ITALY AND THE UNITED STATES (000 omitted)

Year	Italian Impts. from U. S.	Italian Expts. to U. S.	Excess of Impts. over Expts.	Index Numbers				
				a Imports	*b* Exports	*c* Wholesale prices in U. S.	*d* a–c	*e* b–c
1913...	78,672	55,320	25,352	100	100	100	....	....
1914...	97,932	55,212	42,720	124	100	98	+ 26	+ 2
1915...	269,724	51,564	218,160	343	93	101	+242	− 8
1916...	303,528	60,240	243,288	386	109	127	+259	− 18
1917...	419,040	36,480	382,560	533	66	177	+356	−111
1918...	492,180	25,330	466,850	626	44	194	+432	−150
1919...	442,680	59,064	383,616	563	107	206	+357	− 99
1920...	371,760	75,360	296,400	473	136	226	+247	− 90
1921...	215,460	62,292	153,168	274	113	147	+127	− 34
1922...	150,900	63,936	86,964	192	116	149	+ 43	− 33
1923...	167,532	92,268	75,264	213	167	154	+ 59	+ 13
1924...	187,152	75,012	112,140	238	136	150	+ 88	− 14
1925...	246,113	75,241	170,872	314	137	159	+155	− 22
1926...	216,521	74,488	142,033	275	135	151	+124	− 16
1927...	201,856	83,875	117,981	256	152	147	+109	+ 5

A confirmation of the fact that the position of Italy respecting the foreign trade of the United States has become worse is obtained by examining the percentage distribution of the American foreign trade. During the five-year period 1910–1914, American exports to

[1] Figures in this and in the following tables are based on Italian statistics, expressed in lire.

Italy represented 3 per cent of the total exports of the United States; in 1923 they were increased to 4 per cent; in 1924 to 4.1 per cent; in 1925 to 5.01 per cent; in 1926 to 4.06 per cent; and in 1927 to 4.3 per cent. As regards Italian exports to the United States, they represented in 1910–1914 3 per cent of the total American imports, and were reduced to 2.4 per cent in 1923; to 2.1 per cent in 1924; to 1.8 per cent in 1925; to 1.9 per cent in 1926; and to 2.02 per cent in 1927. Furthermore, during the five years 1910–1914 Italy occupied the eighth place among the sources of supply of the United States and the sixth among its customers. In recent years, while Italy has preserved her place (the sixth) among the customers of the United States, she has moved to the thirteenth place among its sources of supply.

Quite different is the relative position of the United States respecting Italian foreign trade. In 1913 Italian exports to the United States represented 10.3 per cent of the total exports of Italy; in 1923 they represented 10.9 per cent; in 1924 they were reduced to 8.5 per cent; but were increased again to 10.03 per cent in 1925; to 10.9 per cent in 1926; and to 10.6 per cent in 1927.

On the other hand, Italian imports of American goods represented in 1913 19.9 per cent of the total imports of Italy; in 1923 they were increased to 27.9 per cent; in 1924 to 24 per cent; and to 23.9 per cent in 1925. In 1926 and 1927 they decreased to 21.8 per cent and 20.01 per cent respectively, the decrease due chiefly to the reduced importation of wheat as a result of the successful campaign for the increment of grain production in Italy.

As a result, the United States has taken the place held before the war by Germany as Italy's largest source of supply, while it occupies the third place (after France and Germany) among Italy's customers, as compared with the second place held by America before the war respecting both imports and exports of Italy.

Italian Imports and Exports to the United States

Thus, the chief characteristic of the commercial relations between the two countries is the accentuation during the war period of the unfavorable trade balance of Italy respecting her commercial exchanges with the United States, and the persistence of this disequilibrium after the war. This is due to the fact that while American exports to Italy have retained during the post-war period much of the progress made during the years of conflict, Italian exports to the United States, although they have recovered some of the ground lost during the war-period, have been unable to reach even their pre-war level.

Italian imports of American goods expanded considerably during the war, owing to the necessity of substituting the United States for European markets as the source of supply of very important raw materials and indispensable foodstuffs. Thus, for example, the United States was substituted for Russia and Roumania as the source of supply for Italy of wheat and mineral oils; it was substituted for Germany and England as Italy's chief source of coal. This situation was at first regarded as temporary, but it has remained practically unchanged since the war, owing to various circumstances which it is needless to analyze here.

Quite different is the situation of Italian exports to the United States during and after the war. The bulk of Italian products exported to this country is constituted of foodstuffs, which represent about 45 per cent of the total Italian exports to the United States. The importance of this category of

goods exchanged between the two countries is due to the presence in the United States of a great number of Italian emigrants. During the war, owing to the stoppage of Italian exports of foodstuffs, it was necessary for the Italians in America to substitute for Italian products domestic goods or goods imported from other countries. This substitution has continued since the war.[2]

AMERICAN RESTRICTION

The restrictions imposed by America on foreign and especially on Italian immigration in recent years have also influenced Italian exports to this country. Before the war, the continuously increasing number of Italians in America created a growing demand for Italian products, thus accounting for the gradual expansion of Italy's exports to the United States. It is natural that once the growth of Italian communities here has been checked as a result of the restrictions on immigration, one reason for the expansion of Italian exports has also disappeared.

There still remained, however, the possibility that the expansion of the exports of American goods to Italy, during and after the war, would bring about *ab reaction* a corresponding increase in the imports of Italian goods into the United States. But even this last hope has been destroyed, chiefly as a result of the high duties imposed on products imported from Italy. This, to my mind, can be regarded as one of the chief factors at work against Italian exports to the United States since the war.

The table on p. 224 shows the composition of the commercial exchanges between Italy and the United States during the year 1925, which can be regarded as a normal year.

The above statistics show that in the year under consideration Italian exports of foodstuffs to the United States represented about 45 per cent of the total exports of Italy. This category of goods was chiefly made up of tomatoes and tomato pastes; various kinds of cheese; olive oil; dried, canned, and preserved fruits; lemons; table fruits (grapes and others); alimentary pastes; etc. All of these products have always been taxed on various scales. The new United States Tariff of 1922 brought about a general increase of the duties on these goods, and at present we have the following figures, resulting, in some cases, from various increases of the original duties of 1922, some of which have affected only Italian products. Tomatoes and tomato pastes are today taxed on an average from 15 to 40 per cent (as compared with an average from 15 to 25 per cent in the previous tariff); cheese, on an average of 30 per cent (as compared with a former duty of 20 per cent); dried and preserved fruits, on an average of 35 per cent (previously on an average of 10 per cent); alimentary pastes, on an average from 25 to 30 per cent (as compared with an average of 20 per cent in the former tariff).

In addition to these duties there is a whole series of special provisions contained in the *Pure Food and Drug Act*, which in some cases result in a discrimination against Italian products, and in all cases represent the utmost danger for Italian exports of foodstuffs to this country. According to this act, the importation of oranges and mandarini, from Mediterranean countries, is altogether prohibited, on the ground that those products, of that origin, are affected by a parasite. The entrance of tomato products from Italy is also made extremely difficult by

[2] As an example: Prior to the war the United States imported from Italy over 125 million pounds of alimentary pastes annually; after the war less than 5 million pounds.

YEAR 1925

(Thousands of Lire)

Category of Goods	Italian Imports of American Goods	Italian Exports to the United States
Alimentary products	2,234,870	837,633
Tobacco	79,779	
Silk and silk manufactures		594,633
Cotton and textile products	2,270,802	
Mercury and other minerals		17,843
Marble and other stones		48,265
Iron, steel, etc.	469,181	
Coal	145,356	
Mineral oils and paraffin	514,846	
Machines, instruments, etc.	168, 115	14,382*
Automobiles, motor-cycles, and parts thereof	44,634	
Furniture, wooden products, lumber, etc.	73,056	18,939
Hides and skins, raw and prepared, gloves, etc.	51,040	84,212
Chemical products, essential oils, colors, pharmaceutical products, etc.	44,729	83,160
Hats and straw hats		84,035
Glass, pottery, etc.		36,816
Tires and rubber products	13,168	
Seeds and vegetables		4,064
Sundries	65,239	63,838
Totals	6,174,817	1,887,826

* Including automobiles

the strict application of the rules contained in the above mentioned act.

Among other products imported in large quantities from Italy, we note: Silk and artificial silk, today taxed on an average of from 35 to 45 per cent (as compared with an average duty of 30 per cent in the former tariff); marble and alabaster, on an average from 35 to 50 per cent (on an average of 30 per cent in the former tariff); citrus essential oils, on an average of 25 per cent (20 per cent in the old tariff); hats and straw hats, today taxed from 25 to 88 per cent (20 to 40 per cent in the former tariff); etc.

As a whole, Italian products imported into the United States, are at present, taxed on an average of 30 per cent, as compared with an average protection of 38 per cent actually afforded by the American tariff of 1922.

On the other side, if we consider American products exported to Italy, we see that their bulk is constituted of essential foodstuffs and raw materials (wheat, cotton, petroleum, benzine, mineral oils, paraffin, coal, lumber, etc.), all of which are either admitted free or subject to very slight duties, under the present Italian tariff of 1921. These two categories of products alone represent about two-thirds of the American goods imported into Italy. As a whole, American exports to Italy are taxed on an average of 9 per cent, which is considerably below the average protection of 14.2 per cent actually afforded by the Italian tariff.

ITALIAN-AMERICAN TRADE BALANCE

From the above analysis of the commercial exchanges between Italy and the United States a few conclusions can be drawn. First of all, while the United States has at all times represented a very important source of raw materials and foodstuffs for Italy, Italian exports to the United States have usually fulfilled a supplementary function in the American market, the demand for Italian products coming chiefly from Italian communities in this country.

Moreover, Italy sends to the United States products of a relative importance (mostly foodstuffs not indispensable) which could be cut off with no sacrifice on the part of American people, while the United States supplies Italy with very important raw materials and semi-finished products, indispensable for Italian industries.

Secondly, there is a remarkable disproportion between the relative position of each of the two countries respecting the foreign trade of the other. Despite the development of the commercial exchanges between the two nations, the importance of Italy respecting the foreign trade of the United States is still of a secondary character. Italy absorbs only a little more than 4 per cent of the total exports of the United States, while her exports to this country represent a little more than 2 per cent of the total imports of the United States. The United States, instead, occupies a very important position respecting the foreign trade of Italy. The latter receives from the former more than one-fifth of her total imports, while America absorbs more than 10.5 per cent of Italy's total exports.

Thirdly, the necessity for Italy to improve her unfavorable trade balance with the United States is evident, a necessity still further accentuated after the war, as a result of the rapidly growing disequilibrium between her imports of American goods and her exports to the United States. The need for a substantial increase of Italian exports to this country is made clearer when we consider the duty on the part of Italy to make heavy annual payments to the Federal Government under the clauses of the war-debt refunding agreement reached between the two countries, and the gradual decrease of the emigrants' remittances, as a result of the restrictions imposed on Italian immigration in this country. These remittances contributed largely in the past to offset the deficit of the trade balance between Italy and the United States.

Owing to the character and to the nature of American products imported into Italy, a substantial improvement of the trade balance between the two countries cannot be brought about by a drastic reduction of imports into Italy of American goods, since this could be effected only at the expense of the Italian industries as well as of the welfare of the Italian people, who would be deprived not only of essential raw materials indispensable for the functioning of Italian industries, but also of very important foodstuffs. This is a very strong reason why the economic policy of Italy toward the United States must always be a policy of peace, tending to secure the greatest possible advantages for both countries, and to remove all obstacles that might hamper the development of the commercial exchanges between the two nations.

RESULTS OF INCREASING ITALIAN EXPORTS

Hence, there is only one way to improve the trade balance between the two countries, namely, by gradually and substantially increasing Italian

exports to the United States. And this can be achieved chiefly by means of a commercial entente between the two countries.

We are not concerned here with the possibility of such an entente, but rather with its probable results.

It is difficult to estimate to what extent American exports to Italy would be affected by any change in the Italian duties, since owing to their character of indispensability, their volume is determined by the need for them, rather than by competition with foreign goods on the Italian market.

It is quite sure, instead, that a lowering of duties in favor of Italian goods imported here would affect little or nothing the economic conditions of the United States, while it would largely benefit Italian exports to this country.

Italian goods imported here—chiefly constituted of foodstuffs—can be classed in three categories: (a) Goods not produced at all in the United States; (b) goods produced in this country, but in quantity insufficient to meet the requirements of the population; (c) goods also produced in the United States, but imported from abroad chiefly on account of their higher quality and of their relative cheapness. In each of these cases, the competition resulting from an increased importation of Italian products would be very relative; at any rate, it would not be felt at all by the staple trades of the country.

Furthermore, Italian goods imported here constitute, as we have seen, a little more than 2 per cent of the total imports of the United States. An increase of Italian exports to this country, therefore, even to such an extent as to double them, while it would give Italy a chance to increase substantially her participation in the supply of this most coveted market, it would affect hardly at all the future activity and development of American industry and agriculture.

Concluding, an analysis of the possibilities of further development of the commercial relations between Italy and the United States shows that Italian exports to this country offer a supplementary and integrating factor to the economy of the United States, rather than represent a destructive competition. Their development, far from being a danger to the economic interests of this country, would result in actual benefit to the American consumer. The consideration of this fact alone, should by itself assure a friendly coöperation between Italy and the United States with a view to further developing and intensifying the commercial exchanges between the two nations, with undoubted reciprocal benefit.

The Tariff Relationship of the United States and Canada

By Donald M. Marvin, Ph.D.
Economist

It is not difficult to understand the trend of legislation throughout the world toward higher tariffs. In each country those who are interested in tariff increase have found organized effort advantageous and the diverse groups to whom tariff reduction would be beneficial have been too inarticulate to win popular support.

In each country, the manufacturer seeks volume production and reduced unit costs. Securing control of the home market for the domestic industry offers itself as a constructive means to this end. Each tariff increase seems to make for the employment of a larger home population in manufacturing industries and to increase the breadth of the home market for home products. In such circumstances, it is natural for each manufacturer to favor the same benefits for his friends in non-competing lines that he seeks for himself in relation to his own product. Since each industry claims that internal competition is too keen to permit a substantial increase in home prices, the statement is made that such protection serves to increase the volume of home production without a corresponding increase in cost to the consumer.

Difficulties of Tariff Legislation

In those countries where agricultural production is greater than home consumption, there has seldom been a strong tendency for farmers to unite in the support of low tariffs. From a political viewpoint the individualistic farmer is not particularly effective. Like most exporters, farmers do not realize that the high tariffs which bar imports serve almost equally well to check exports, to the extent that they interfere with international trade and reduce international buying powers. It is a trite saying that the only ultimate payment for exports must be in terms of imports. The exporter sells for cash and is usually unable to perceive the indirect relationship between his country's tariffs on imports and the volume of his own sales abroad. Their diverse interests have rarely led exporters to achieve a unified attitude among themselves toward import tariffs.

In all countries, legislators are accustomed to confront the difficulties encountered by those who seek to harmonize conflicting ideas and interests. With powerful internal forces eagerly seeking higher tariffs, the dogma that tariff legislation must embody the maximum possible assistance to each group within the country without regard to the extent of the injury which such actions may inflict upon foreigners, has become a political axiom. As against this patriotic sentiment such resolutions as those passed by the World Economic Conference at Geneva, or the meeting of the International Chamber of Commerce at Stockholm, favoring reduced restrictions on international trade, fade into pale insignificance.

In most countries, one looks in vain for a constructive and consistent policy which might account for the details of tariff legislation. From a viewpoint within the country, it may not be difficult to recall that certain clauses were

the product of compromise between many conflicting interests; one clause was written to please the farmer without unduly hindering industry; a second, to placate the worker without antagonizing his employer; and a third, to protect the producer of a basic product without destroying the domestic manufacture of the finished article. A tariff so constructed within the country may wear a strange appearance when viewed from the outside world.

Each undue rise in tariff rates subsidizes the growth of comparatively less efficient industries, and the capital and labor employed in such industries demand continued protection and organized coördinated forces, which apply political pressure to obtain more protection. The process of lowering tariffs is difficult; it creates domestic industrial chaos, invested capital is destroyed, and men are thrown out of work and financial and industrial depression is brought on. The time to determine the maximum and minimum amount of protection for a given industry is when that protection is first afforded. Akin to inflation and deflation, rising or falling tariff rates are bad for industry and commerce, both at home and abroad. Stable tariffs alone permit the process of growth and adjustment which make for fundamental prosperity.

Theory of Protective Tariff

The purpose of an analysis of the tariff relationship between the United States of America and Canada is to observe the effects of past tariff policies and to determine, so far as possible, the potential volume of trade which these or other policies will make possible in the future. Both the United States and Canada are thoroughly committed to the theory of a protective tariff. In both countries, it is thought that without protection there are factories which would stand idle, working men who would find themselves out of employment, and industries which would be curtailed. In neither country is there an inclination to bring about such events by sweeping tariff reductions.

In the face of this thorough-going belief in protection, Canada is one of the few countries in the world which has followed a consistent policy of moderate tariff reduction since the war. A substantial proportion of this tariff reduction has been accomplished in the form of trade treaties with foreign countries, particularly with the British West Indies and Australia—countries which annually purchase millions of dollars of Canadian goods. In a sense, such tariff reduction may be accepted as a tangible recognition of the fact that the ultimate payment for exports must be in terms of imports. It is not altruism but merely shrewd business foresight which encourages a country to reciprocate trading privileges with large importing countries. Such practical courtesy promotes good business. In the past, some countries have gone so far as to assist in the development of friendly adjacent countries with a view to increasing the latter's purchasing power. It is natural that policies of a character which tend to increase the foreign trade of a country, without unduly injuring internal industries, should have come to be considered an important part of national policy.

The second factor which has tended to reduce Canadian tariffs is that agriculture is a sufficiently important industry in Canada so that the farmer is effectively represented in parliament. The Canadian farmer realizes that as long as he produces more wheat than is consumed in Canada, the Canadian price for wheat will reflect conditions of demand and supply throughout the world. No serious attempt has been made to mislead him into believing that it is possible to give tariff protection on

an agricultural product of which there is a surplus for export. Since the Canadian farmer knows that his wheat sells in a world market, he is unwilling to permit Parliament to extend more than moderate protection to Canadian manufacturing industries. In general, it is not his desire that tariff protection shall be sufficiently high to shut out imports completely, nor even to permit such protection to cover the cost of manufacturing inefficiency. The tariff is now at such a level that a fair proportion of almost all dutiable articles is admitted from abroad and this level insures at least a reasonable degree of manufacturing efficiency at home; in actual fact, as the home market has grown, many Canadian manufacturing industries have worked themselves into a position of high operating efficiency. If these statements were not substantially correct, it would have been impossible for Canada, with a population of ten million people, to become one of the leading countries in the world in foreign trade.

VOLUME OF TRADE

Outside of Canada, it is not generally realized that Canada and the United States carry on a larger volume of trade than that which is carried on between any other two countries in the world. Since 1880, the volume of this trade has doubled every ten years. In 1880, Canada's imports from the United States amounted to \$28 million; in 1890, to \$51 million; in 1900, to \$102 million; in 1910, to \$218 million. Passing over the highly inflated prices of the war years, the imports of 1925 had a value of \$510 million; 1926, \$608 million; 1927, \$687 million, and 1928, \$719 million. These are Canadian statistics based on the fiscal year ending in March of each year mentioned. According to the statistics of the United States Department of Commerce, the exports of the United States to Canada in the six months ending in June, 1928, were nearly twice as large as the exports to the whole of South America or Asia, and greater than the aggregate of exports to France, Italy, Belgium, the Netherlands, Norway, Denmark, Sweden, Czechoslovakia, Switzerland, Spain and Greece. Within this period, the value of exports to Great Britain was \$384 million, to Germany \$206 million, and to Canada \$429 million.

For a large number of reasons, Canada constitutes a particularly favorable market for United States exports. From coast to coast the large centers of Canadian population are reasonably close to the large northern distributing centers in the United States. The Canadian public reads a surprisingly large number of United States publications and these publications are in themselves excellent advertising media in Canada. The Canadian public is accustomed to make use of the same types of goods and the same styles that are popular in the United States. United States brands and trade names are fully as well known in Canada as in the United States. For these, and other reasons, most United States manufacturers find that an extension of their sales territory into Canada is likely to meet less resistance than the extension into any other foreign territory.

The very factors which make the Canadian market particularly attractive to exporters from the United States, tend to increase the difficulties of the Canadian manufacturer and distributor. The fact that United States brands are well known in Canada increases the advertising and other expenses necessary to establish the reputation of a Canadian brand. That publications from the United States are widely read in Canada does not make them good advertising media for

the Canadian manufacturer. As Canada has a comparatively small population spread from coast to coast, goods from the nearest large distributing point in the United States can be shipped in more cheaply, so far as transportation and sales organization are concerned, than they can be distributed from any one or two points in Canada. With such advantages in their favor, it is not strange that exporters from the United States have been successful in developing the Canadian market, nor that Canadian purchases in the United States have been more than twice the value of purchases in Great Britain, the country second in the competition for the Canadian market.

CANADIAN TRADE WITH UNITED STATES AND GREAT BRITAIN

In spite of the preferential treatment extended to a number of British products, the actual operation of the Canadian tariff is more advantageous to the United States than to Great Britain. The evidence for this statement lies in the fact that within the last three years the average rate charged on dutiable goods from Great Britain amounted to 23.9 per cent, whereas the rate on dutiable goods from the United States amounted to 23.4 per cent. On total imports from the United Kingdom the duty charged amounted to 18.8 per cent, and on the total goods from the United States to 13.2 per cent. The divergencies in these last percentages are due to the fact that free goods from the United States during this period had a value of $868,394,000, compared with $95,409,000 worth of free goods from Great Britain. It is rather surprising that this should be true, considering that Great Britain imports more than twice as much goods from Canada as Canada imports from Great Britain, and that Canada's exports to the United States are only two-thirds of the United States exports to Canada.

Since 1885, Canadian imports from the United States have been consistently larger than from the United Kingdom. The rate of duty on dutiable goods from the United States has been slightly lower than on dutiable goods from Great Britain, and the amount of free goods imported from the United States has shown a growing margin over the amount from Great Britain. The first two double columns in the following table shows the value of Canadian imports and exports from Great Britain and the United States since 1870, at five-year intervals; the next two double columns show the value of the dutiable and free goods from each source, and the last two double columns show the percentage rate of duty charged on dutiable goods and on total goods from each country. Though the imports from the United States in 1927 were 3.8 times as large as those from Great Britain, the amount of duty collected was only 2.7 times as much as that charged against goods from Great Britain. In spite of the wide discussion of the effects of British Empire Tariff, the facts of the case show that Canada has consistently given the most liberal treatment to goods from the United States consistent with a policy of protection to her own industries.

EFFECTS OF NEW TARIFFS

It is natural for the great industrial nations to export a large volume of manufactured goods to those countries which produce raw materials, provided that they, in turn, import a corresponding proportion of the latter's products. As long as Canada was an agricultural country, this relationship was mutually satisfactory. When Canada became a manufacturing country, the character of the trade was bound to change. Owing to the fact that Canada has a

TRADE OF CANADA WITH THE UNITED STATES AND GREAT BRITAIN
(in thousands of dollars)

Year	Total Imports		Total Exports		Free Imports		Dutiable Imports		Percentage Rate of Duty on Total Imports		Percentage Rate of Duty on Dutiable Imports	
	From U. S.	From U. K.	To U. S.	To U. K.	From U. S.	From U. K.	From U. S.	From U. K.	From U. S.	From U. K.	From U. S.	From U. K.
1870	21,697	37,537			12,998	7,514	8,699	30,023	7.83	13.41	19.54	16.77
5	48,930	60,009	28,923	39,982	26,618	11,059	22,313	48,950	7.87	14.79	17.26	18.14
80	28,194	33,764	31,610	45,814	8,627	5,726	19,567	28,038	16.00	19.95	23.05	24.02
5	45,576	40,031	37,731	41,872	14,345	9,329	31,232	30,702	14.53	19.02	21.20	24.80
90	51,366	43,277	38,083	48,354	20,790	10,009	30,575	33,268	15.82	22.12	26.58	28.78
5	50,179	31,059	37,465	61,857	24,383	7,747	25,795	23,312	13.74	22.56	26.73	30.03
1900	102,224	44,280	59,963	107,736	48,327	12,718	53,897	31,562	13.19	18.23	25.03	25.58
5	152,778	60,343	75,563	101,959	73,981	15,243	78,797	45,100	13.47	18.51	26.11	24.76
10	218,005	95,337	110,614	149,630	99,170	23,514	118,834	71,823	13.53	18.91	24.83	25.10
15	297,142	90,157	186,343	211,758	128,484	22,147	168,658	68,010	14.24	20.46	25.10	27.12
20	801,097	126,363	501,130	495,960	301,381	33,118	499,717	93,245	14.02	16.27	22.48	22.05
25	509,780	151,083	427,185	397,168	222,743	26,418	287,037	124,666	13.00	18.23	23.10	22.09
26	608,618	163,731	485,952	509,266	270,646	30,606	337,972	133,125	13.27	18.40	23.91	21.63
27	687,022	163,939	479,335	448,019	294,357	28,968	392,665	134,970	13.22	19.72	23.12	23.95
28	719,444	185,889	496,647	412,772	303,396	35,835	416,048	150,053				

population of only ten million people, there are a large number of specialized products which it is still impractical for Canada to manufacture. The large volume of Canadian manufactured imports indicates the extent of these requirements. With the further growth of Canadian population and the extension of her manufacturing industries, there will be a continued process of change in the character of her import requirements. Canada is now the fifth manufacturing country in the world.

To some extent, this rôle of a manufacturing nation has been the outcome of the tariff policies of the United States. A steadily increasing number of Canadian products have been barred from the United States markets by new or higher tariffs. The only severe depressions in Canadian history have followed the imposition of new tariffs by the United States. Since Canadians were not to be permitted to sell to the United States, they began to look askance upon the steadily increasing volume of purchases from that country. With repeated stimuli of this kind, it was only natural that Canadians eventually erected a tariff barrier on their own side of the border and manufactured more and more types of goods which formerly had been bought from the United States.

Yet, even now, there are a large number of Canadians who fail to understand that the fact that Canada buys 50 per cent more goods from the United States than the United States buys from Canada will have no effect whatever upon the decision of the tariff committee with relation to raising tariffs to check any small leaks that may have been found in the United States tariff walls. In Canada, where ministerial responsibility, that most basic feature of the British form of government, gives unity to foreign policy, tariff policy and other policies which affect foreign peoples, it is difficult to understand that disassociation of governmental policies which permits the Department of Commerce to be making every effort in its power to increase and improve the cordiality of the trade relationship and increase the volume of trade between the two countries, at the same time, that many of the employees of the Treasury Department

feel that it is incumbent on them to do everything in their power to penalize imports. To those Canadians who felt that the United States would eventually come to encouraging imports from Canada, with a view to expanding their own exports to that market, the Fordney-McCumber tariff was a severe blow, since it placed heavy duties on cattle, horses, sheep, milk and other items which Canadians were then exporting to the United States. The effect of this tariff on Canada was to prolong the depression of 1921 until well into 1925. The latter part of this severe depression came at the time when the United States was experiencing unusual prosperity. The following table

Canadian Exports	Table of 1913	Tariff of 1922
Butter	2½ cents per pound	8 cents per pound
Apples	10 cents per bushel	25 cents per bushel
Milk	Free	2½ cents a gallon
Cream	"	20 cents a gallon
Potatoes	"	50 cents per 100 pounds
Cattle	"	1½ to 2 cents per pound
Wheat	"	30 cents per bushel
Logs of fir, spruce, cedar, hemlock	"	$1 per 1000 feet
Beef and pork	"	2 cents per pound
Eggs	"	8 cents per dozen
Horses and mules	10 per cent	20 per cent
Fish (fresh)	Free	2 cents per pound
Hay	$2 per ton	$4 per ton

suggests the severity of this tariff upon Canadian exports.

In most instances, the effect of these new rates was to produce a very slight increase in the prevailing price in the United States. In none of these cases was the quantity of goods received from Canada of sufficient importance so that there was any substantial change effected in supply. Yet, though the decrease in supply was proportionately slight, the effect upon Canadian economic organization was disproportionately large. Ultimately, the depression in Canada resulted in a greater decrease of Canadian imports from the United States than of United States imports from Canada. The Fordney-McCumber tariff affords a number of excellent examples of a large amount of harm being done to an outside country, without securing a sufficient change in home price to give measurable assistance to domestic producers. In some cases, the proportion of a particular product received from abroad was too small to have significant effect upon supply and demand, and in other cases the United States was a net exporter of the commodity and there was no possibility of the United States price being raised above world parity.

Canadian Attitude Toward the New Tariff

The time has come when Canadians feel that there is no possible tariff action of the United States that can do further substantial damage in Canada. During the twelve months ending July, 1928, the most important items exported to the United States included: Newsprint, $122 million; woodpulp, $38 million; unmanufactured wood, $75 million; beverages, $24 million; hides and skins, $11 million; and metals, including gold, alu-

minum, copper, nickel and zinc, $72 million; an aggregate for these items of $340 million out of total exports of $483 million. These important Canadian exports are each of the items which are essential to the welfare of United States industries. It is not likely that increased rates will apply to any of them, with the possible exception of hides and skins. There is no other single item of Canadian exports to the United States having a value of $10 million.

The only tariff measures on the part of the United States which might prove of harm to Canada are not likely to be adopted. On the one hand, the United States will not hamper its own industry by placing a tariff on raw materials; and on the other, it is not felt that the United States would be likely to offend world sentiment by a general increase of tariff on a great number of different articles, at a time when the Chamber of Commerce of the United States together with the Chambers of Commerce of other countries, and the World Economic Conference, have just recently passed resolutions favoring less restriction on international trade.

The effect of a large number of tariff increases at this time would be to give an added impetus to higher tariffs in all parts of the world. Canadian manufacturers, for instance, would immediately capitalize the irritation which would result from barring a number of relatively unimportant Canadian items by demanding that the United States exporter be excluded from the Canadian market. In the past, Canadians did not care to threaten the United States with reprisals because they were then too dependent upon the United States market. That relationship no longer exists.

There are a certain number of people in Canada who would welcome a tariff war with the United States, on the theory that the United States has more to lose in such a struggle than Canada. Such individuals would like to see an export tax imposed on those items from Canada which are most essential to the United States, particularly pulp and pulpwood. Their claim is that such export taxes would awaken the United States to a realization of the irritation which is felt in other parts of the world by the high tariffs of the United States. Fortunately, such extremists are not likely to secure much political sympathy. A trade war between the United States and Canada would injure both countries and build up the resources of neither.

On the one hand, it is not likely that either the United States or Canada will ever desire reciprocity, and, on the other hand, in neither country are further tariff increases economically desirable. The outcome desired by most men of reasonable, broad vision, is tariff stability. If both countries might go so far as to reduce the useless "red tape" at the border and to instruct their customs officials that their duty is to facilitate, rather than to hinder, trade, the natural course of events would bring about a continued growth of this trade and would continue to be a substantial element in the prosperity of both countries.

Tariff Problems in Latin America

By Wallace Thompson

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LATIN American tariffs are primarily tariffs for revenue, a fact which makes the approach to this subject one that is perhaps unique in the tariff field. There are in all of the industrially productive countries in Latin America—Brazil, Argentina, Chile, Mexico and Cuba, for instance—tariffs designed to be protective of their infant industries, and other countries protect their producers of foodstuffs, etc., from foreign competition. But in view of the fact that not one country produces anything like its consumption of manufactured products, the protective tariffs work only to increase the prices of the local products and do not shut out imported products. A protective tariff of itself does not shut out foreign imports; it must be combined with adequate domestic production.

The questions involved in tariff problems in the twenty Latin American countries are, therefore, of the organization and application of the tariff systems and schedules, and of the tariff's use as a weapon of offense and defense in diplomatic and political, as well as commercial relations with other countries, particularly with the United States; this last is a development of the past two or three years only, and the methods of application of the American tariff to Latin American products has had much to do with its development into a major issue.

Tariff Discrepancies

To the American exporter the tariff rates in Latin America have, in general, no great importance in themselves. Insofar as the high rates apply to all foreign products and are fairly enforced, they work to the advantage of the American exporter, as a tariff assessed on weight or any other "unproportioned" basis, excepting *ad valorem*, gives a distinct advantage to the producer of the more costly or finer article. Only if there is a disproportionately high rate on one article and a much lower rate on something that can be used as a substitute, even if not originally intended for the same purpose, does the height of the tariff assessment, by itself, cause tariff problems to our exporters. There are, however, general criticisms from manufacturers which have caused considerable labor to our diplomatic, consular and commercial officers abroad. There is, for example, the general complaint that Latin American tariffs are unfair to the foreign manufacturer (a complaint made with equal if not superior eloquence by exporters of goods to this country), that they give preference to certain types of goods (as noted above), that their schedules are at variance with the modern industrial and trade practice, and that the schedules are antiquated and absurd. There is the further general criticism that the application of Latin American tariffs is variable, capricious and often corrupt, and that fines and forfeitures are imposed arbitrarily for minor infractions.

As a matter of fact the tariff schedules of most of the Latin American countries are antiquated and out of harmony with modern industrial practice and in this way often make difficult the importation of modern machinery that some absurd ancient law assesses

at prohibitive duties. In actual practice, however, this is more capricious than general, as many new devices slip in on low tariff schedules when they should by rights be highly assessed; the old schedules work both ways, although that is no justification. But such old schedules operate directly against the countries assessing them; the classic example is the high tariffs generally assessed against canned foods, under schedules imposed when canned goods were a luxury and now operating to shut out, by prohibitive costs due directly to tariffs, a very important source of healthful, cheap food for the people. But back of this difficulty of antiquated and unbalanced tariff schedules and the variation of assessment practice for the same product, often in the same port of entry, is the fact that the Latin American countries have no industrial background upon which to draw for experts either at preparing tariff schedules or (what is more important, for experts might be employed to devise tariff schedules, but hardly to do all the appraising in dozens of tiny ports of entry) at enforcing the schedules through fair and intelligent appraisal.

Appraisal Difficulties

There is a certain uniformity about Latin American tariffs, despite the fact that this uniformity often seems to be chiefly in the difficulties which it throws in the way of the American exporter. For instance, Latin American tariffs are very generally written from the viewpoint of the retailer, whose knowledge is limited with regard to industrial production; the example here is the oft-cited old Argentine tariff on watches, which evaluated the finest chronometer at only $15 more than the cheapest movement, if in a gold case; at only $3 more than the cheapest, if in a silver case. In such circumstances the work of the appraiser is easy and safe, but the difficulties multiply in connection with some of the apparently equally simple provisions of other schedules, as when fabrics or any other goods must be classified as "common," "fine," "rich," "standard," "ordinary," etc., categories whose difficulties need not be elaborated upon.

There has been, too, unquestioned abuse of valuations, where *ad valorem* duties are assessed, and in one recent instance, at least, the American agent of a great electric manufacturing company obtained a return to the old gross weight schedule, in one country, as a protection against corruption of consular officials abroad and customs officials in the country in question, by European competitors, who on a valuation basis were getting every advantage accruing from false declarations permitted by corrupt officials. In general, however, there is no such abuse of power, or corruption, in Latin American customs as is often stated. The defects are largely within the laws and their normal administration, from the viewpoint of the exporter to those countries. In numerous cases, tariffs are lower than similar duties on imported goods into the United States, and, as noted above, the duties are less important, as a whole, to the American exporter than to the European exporter shipping goods to this country.

Latin American Criticism

By far the greatest problem in our tariff relations with Latin America is in the Latin American attitude toward our own tariff, and in the measures which are being taken in Latin America—chiefly with their tariffs—to retaliate. Latin American criticism of our tariff policy was voiced at the Sixth Pan American Conference at Havana in the early months of this

year, by the Argentine delegate, Dr. Honorio Pueyrredon, at that time Argentine Ambassador in Washington, but since resigned. His criticisms were extremely general, and sought only to introduce into the preamble of the treaty regarding adherence to the Pan American Union a statement that the member nations were opposed to artificial trade barriers. The storm of protest that resulted indicated the tensity of the situation.

As a matter of record, the Argentine protest was based, far back, on embargoes, not tariff provisions, against Argentine chilled meat and Argentine grapes; on a provision that Argentine alfalfa seed must be dyed to indicate it was "unfit for general use in the United States;" and at that time only secondarily on proposed investigations of the costs of production in Argentina of linseed and maize, by American experts. Since that time active protest has arisen over the proposed investigations of production costs by the United States Tariff Commission. The Argentines have refused to allow the experts to make investigations on the ground, although the government there has submitted figures, and the matter is pending before the Tariff Commission. On the other hand, the American embargo on chilled meat from Argentina, which was largely an academic matter, as our tariff excludes virtually all Argentine meat from this market, has been justified by British investigations of the alleged prevalence of the foot-and-mouth disease amongst Argentine cattle that prompted our embargo, in 1926–7. The embargoes here have both been lifted by agreements for local inspection, and the alfalfa seed matter has been settled, also by agreement, all three being victories for Argentina. But meanwhile, the issue of tariff studies on costs of production of linseed and maize are under way and are stirring new sentiments of hostility toward the United States tariff.

At the present time, Argentina is discussing means of retribution and "protection," as it is regarded there. At the time of the embargoes, local organizations in Argentina sought, with but little success, to inspire a buyers' strike against American goods under the slogan "Buy from Those Who Buy from Us." Now, however, there is pending before the Argentine Congress a bill revising the tariff to place a higher scale of duties throughout the tariff, against all the goods from any country whose trade balance with Argentina shows a heavier importation by Argentina than exports from Argentina to the country in question, a provision directed solely against the United States.

Interest in Reciprocity

The Argentine situation is the most striking at the present time, but a similar attitude is general throughout Latin America, and is an important factor in commercial relations, and will be increasingly so. There is a broad reason for this, not generally appreciated in this country. This is the fact that the Latin Americans, as a group, feel that they have been the sufferers from our change in tariff policy away from a leaning toward reciprocity (with Latin America, at least) in the days of James G. Blaine, to the present definite policy of seeking only most-favored-nation treatment with all the nations of the world. The line of cleavage is very sharp indeed, and even if our present tariff policy (of obtaining most-favored-nation treatment at whatever cost) is a necessary element in our growth as an industrial and an exporting people, it is none the less a distinctive factor in our Latin American commercial relations. The Latin Amer-

ican nations have set up tariffs, not to protect industries, primarily, but for revenue, and for something else—that is, to use for political purposes and in order to obtain commercial advantages abroad. They resent frankly our efforts to get them to sign most-favored-nation treaties with us, for in this way they tie their hands, they feel, against making advantageous arrangements with possible markets for their products abroad. Argentina recently signed a reciprocity treaty with Czechoslovakia, granting preferred tariff rates to Czechoslovakian pottery and porcelain, in exchange for preferred rates on Argentine beef.

Conclusion

This article is in itself only the most cursory of summaries of a situation full of interesting, amusing and vitally important phases. The antiquated and often absurd tariff schedules and practices of Latin American nations can, and have been, revised by American experts in many of the countries, and in others they have been carried further, and are today being enforced by American employees, but the latter is, at least, not a permanent solution. The simplicity of construction and ease of understanding which belong to the ideal tariff schedule is no further away in the antiquated tariff laws of Latin American countries than it often is in the finished products of the four or five countries of the world which are sufficiently developed industrially to produce water-tight tariff schedules. The experience mentioned above, with regard to an *ad valorem* duty which had to be changed back to gross-weight duty to avoid abuse, is indicative of another difficulty inherent in any modernization of tariff practice in Latin America. And, finally, the drift toward the use of the tariff as a weapon or as a valuable commodity of barter in international relations, is in some ways a far more overwhelming element of the tariff problem in Latin America than any issue inherent in tariff practice itself.

The International Cartel as an Influence in Tariff Policies

By Louis Domeratzky
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FROM a purely theoretical standpoint, it is quite evident that there is a connection between international cartels and protective tariffs. Leaving out the difference in their scope and their non-economic phases, we may regard both as economic measures intended to counteract the effects of free competition between the producers of different countries and to protect the interests of the domestic producers. While not much is heard now about the tariff consequences of international cartels, in spite of the growing strength of the cartellization movement, this phase of the subject was receiving a good deal of attention right after the Armistice, when, largely under the influence of the German protagonists of the Paneuropean, or rather Central European idea, there was a certain public opinion in favor of customs unions as an important factor in post-war reconstruction.

It was generally recognized that some means would have to be found for replacing the protective tariff in order to safeguard the industrial interests of the weaker members of the proposed union, and the cartel was regarded as pointing the way to a solution. This choice was quite logical in view of the fact that the territorial international cartel, providing for the division of neutral markets and the reservation of the domestic market to domestic producers, was a fully developed institution before the war. As instances, we might cite the international rail cartel, which was in existence, in one form or another, practically from 1884 to the outbreak of the war; the carbide of calcium cartel, first organized in 1901; and the incandescent lamp and aluminum cartels. Incidentally, it should be noted that most of those cartels have been revived in one form or another since the Armistice, with more or less emphasis on the territorial phase.

Reëstablishing Economic Relations

While the movement for customs unions failed to develop considerable strength, the international cartel became quite a factor in reëstablishing economic relations between the former enemy countries. Thus, we find that the negotiations for some understanding between France and Germany in regard to potash was started a comparatively short time after the Armistice and in a rather trying political atmosphere. The international raw steel cartel, for which negotiations were begun in 1925, in spite of its continental scope, received its impetus from the plight of the German producers who found it impossible to resume their pre-war position in foreign markets on account of the competition of the French steel industry, greatly strengthened by the acquisition of the Lorraine plants. It was the Continental Steel Cartel, inaugurated in 1926, after prolonged negotiations, with its preliminary "contingent agreement" for regulating the steel imports into Germany from the Saar, Lorraine and Luxemburg, that paved the way for the Franco-German commercial treaty. In this particular case, it was quite obvious that the tariff alone could not cope with the abnormal factors

developed by the shift in the steel industry and the artificial currency situation.

The persistence of certain economic war measures, and particularly the restrictions on international trade growing out of the strained relations between some of the newly created states, served to engender a certain amount of impatience on the part of the more internationally minded business men, and gave rise to a tendency to resort to purely economic understandings, as a means for accelerating the progress of economic restruction, as well as for settling some of the economic problems resulting from the changes in the political alignment.

DEVELOPMENTS OF MOVEMENT

The international cartel movement had reached sufficient developments to be included in the agenda for the International Economic Conference (May 4–23, 1927) at Geneva, as one of the means for overcoming the industrial difficulties resulting from the World War. While the actual discussion of the subject and the cartel resolution adopted did not come up to the expectations of some of the protagonists of the movement, among whom Loucheur was probably the outstanding figure, there was no doubt as to the interest in the subject. The failure of the Conference to adopt a definite resolution calling for action on the international cartel question by the League was due largely to the opposition of the German and British delegates, who did not consider the movement sufficiently advanced to justify the interference of the League. This was all the more true, considering the fact that very few of the countries participating in the movement had developed definite legislation to deal with domestic cartels. So far as is known, there was no attempt to tie up the international cartel with any of the questions of commercial policy which received most attention at the Conference, although there were a number of references to the possible effect of cartels on tariff policies.

The international cartel came up again for discussion at the meeting of the Economic Consultative Committee of the League of Nations on May 28, 1928, when it was admitted that no action had been taken on the recommendations of the International Conference in the previous year, and it was recommended that the Council of the League instruct the Economic Organization of the League to undertake certain preliminary studies of the international cartel; while no specific reference is given to the tariff phase of the cartel question, the subject might be included in the provision for the study of "international industrial agreements and cartels from the international economic standpoint."

The recent meeting of the Economic Committee came closer to linking up the cartel with tariffs. The subject came up in connection with the discussion of the activities of the committee along the lines of bringing about certain international action regarding import duties, similar to the efforts connected with the Convention for the Abolition of Import and Export Prohibitions and Restrictions. It was suggested that a beginning might be made with certain commodities of wide international scope and preferably those subject to control by international cartels. There was also a hint that dumping practices might be prevented by "action with a view to organization and mutual understandings between the competing producers of the different countries, which would result in more healthy competition."

It is quite evident from the above outline that in view of the compara-

tively slight interest in customs unions and the lack of action on the international cartel resolution by the League, the relations between the international cartel and protective tariffs have not come in for much discussion from a practical standpoint. We shall, therefore, confine ourselves in the present article to the theoretical phase of the subject.

BASIC FEATURES

To what extent can a fully developed international cartel replace a protective tariff in the member countries, and to what extent is it likely to influence tariff policies?

There are a number of points that should be considered before we can give a definite answer to these questions.

In the first place, we must consider the basis of the international cartel in question and its scope. By its basis we mean the degree of organization of the industry in question in the constituent countries. An ideal international cartel should be based primarily on domestic cartels, that is, the industry involved should be so organized in the participating countries as to guarantee compliance with the cartel terms regarding prices, territories, etc., on the part of the individual producers. It should also control such a predominating proportion of the specified commodity entering international trade as to protect its membership against the attack of outsiders. As a matter of fact, comparatively few of the existing international cartels could come up to these specifications, although there are some that are in practically complete control of the international market, like the potash, copper, borax, and rayon cartels. In most cases, however, including some of those cited, it will be found that the control rests primarily on the natural scarcity of the product involved, the large investment of capital required for getting into the industry, patent control, or State coöperation. In a number of cases, like aluminum, zinc, certain chemicals, linoleum, etc., there can be no claim to control of international markets, although the inability of a large outside producer to go beyond the confines of the domestic market may give such an international cartel the semblance of control, for a time at least. It would, therefore, seem that against the political uncertainty connected with tariff policies we have the insecure basis of many of the existing international cartels from the standpoint of potential competition from outsiders.

LACK OF PERMANENCE

Another feature of the international cartel is its lack of permanence. Many of the organizations formed since the war provide for a comparatively short period of duration and rather numerous reasons for denunciation. An important cartel, like the Continental Steel Cartel, was organized only for a period of four and a half years, and can be denounced for seven different reasons. The copper and zinc cartels were originally organized for periods less than a year and with very short notices for withdrawal. It is true that in the case of organizations involving financial interrelations, like the rayon cartel, we might assume the existence of a more secure basis of tenure, but we must not forget that theoretically an international cartel implies the financial independence of the individual members and that such financial relations as exist in the rayon cartel are very rare among international cartels.

As to the scope of the international cartel, it is generally admitted by the students of the movement that there are only certain commodities that lend themselves to cartellization. It is quite obvious, for instance, that prod-

ucts involving a high degree of individual skill, which cannot be replaced by machinery, do not make good subjects for cartels; the same would be true of articles of limited demand, or which for some natural or psychological reasons are not adapted to large scale production. On the whole it may be said that an industry that is not based on a supply of raw materials or manufacturing processes that lend themselves to financial or legal control, and that does not involve a large outlay of capital, or in which the application of large amounts of capital does not give corresponding benefits, does not furnish a basis for a cartel, whether domestic or international. At least we can go that far at the present stage of cartel technique. On the other hand, the scope of a protective tariff does not suffer from such limitations, so that there is likely to be for a good many years a considerable margin of commodities that will have to look to the State for protection by way of tariffs.

But if the influence of the international cartel on tariff policies is very slight at present, and will probably be restricted by natural limitations in the future, it cannot be denied that it is likely to have a considerable psychological effect, particularly in connection with commercial treaties; this effect is bound to be intensified if the League of Nations should succeed in its efforts to broaden the field of multilateral treaties. Whatever we might think of the influence of industrial interests on tariff policies, it is safe to assume that when the outstanding industries of one country have close relations with the corresponding industries of another country, when, as it happens in some cases, their export business is handled through the same central organization and when the high executives meet more or less frequently to discuss their mutual interests, commercial negotiations between the two countries in question would be more or less influenced by considerations for the interests of the outstanding industries. In the case of the protracted negotiations between France and Germany, the interests of the iron and steel industries of the two countries were acknowledged to be one of the outstanding factors in the discussion, and the respective governments naturally were vitally interested in the progress of the negotiations for the Continental Steel Cartel. The potash agreement between the same countries is another instance of the participation of the government in negotiations between private industries, although in this case the two governments also have financial interests in the industry.

Tariff Schedules

Another phase of tariff that may be influenced by the international cartel movement is the purely technical one as related to the make-up of tariff schedules. One of the likely results of international cartels, when the movement reaches its full development, is a specialization in production that will enable the various constituent members to utilise their facilities to the best advantage. Another feature, which is now in effect in such cartels as rayon, electric globes and some chemical products, is the pooling of processes and patents, which is likely to work in the direction of standardization. It is quite obvious that such a movement, combined with the efforts of the League of Nations to introduce uniform tariff nomenclature, is bound to encourage the simplification of tariff schedules as regards many important branches of manufactured products.

The connection between dumping and international cartels is also quite apparent. If a country has an important industry in danger of being de-

moralized by dumping on the part of economically stronger or better organized outside competitors, there is a temptation to join an international cartel if there is one, and thereby obtain full protection for the domestic market. This method of protection, while it may lack the permanence of an anti-dumping provision in a tariff, is much simpler from an administrative standpoint, especially if the cartel in question is of the more perfected type, with a centralized selling organization, which would make it possible to trace any dumping practices on the part of a member producer. It is not meant to imply, of course, that every international cartel is an automatic preventative of dumping practices, but merely that the more highly developed international cartels, with sufficient prestige to enforce their rules among the members, are in a position to prevent dumping in the markets of the member countries so far as the member producers are concerned.

Conclusion

To sum up, it might be said that the international cartel movement has not yet become sufficiently broad or the cartel form sufficiently stabilized to make it possible to estimate definitely the extent to which the international cartel is going to influence tariff policies, or to take the place of the tariff as a protective measure. That there is an obvious relation between these two forms of restriction of free competition in the international field cannot be disputed, but it is safe to assume that for a time at least the influence of the international cartel is likely to be stronger as regards commercial treaties and other forms of economic *rapprochement* between countries, and also perhaps, tariff technique, than as regards the tariff as an instrument of protection. This, of course, is based on the assumption that the movement for customs unions is not going to be revived in the immediate future.

The Republican Party and The Tariff

By William Starr Myers
Professor of Politics, Princeton University

It may be considered almost an axiom of practical politics that the political party or faction that is able to identify itself with the policy of a protective tariff is well intrenched in power. By this means it is possible to bring within its fold the business and industrial interests that are so necessary to supply not only the votes, but also the party funds and special campaign contributions that are an absolute condition of party success. This applies to other countries than the United States, as history well illustrates.

In the year 1923, Prime Minister Stanley Baldwin, although seemingly firmly established in power in the House of Commons of Great Britain, suddenly took up the policy of a protective tariff in order to bring his country out of the slough of economic despond into which it had fallen soon after the armistice closed the World War. Of course, this was revolutionary in its effects, for it ran directly counter to the free trade cult that had been almost a national superstition for the preceding seventy-five years. Mr. Baldwin promptly followed this new declaration of intended policy by an appeal to the country, but with the result that inherited and traditional instincts were too strong, and he lost his majority in the election. His plurality fell before a Liberal and Labor coalition that existed long enough to form an adverse parliamentary majority, and brought about the interim of a Labor ministry under the brilliant, if not always statesmanlike, leadership of Ramsey MacDonald.

The new ministry maintained office for less than a year, when another swing of the Liberal members to a temporary union with the Conservatives proved too much for MacDonald, and the election of 1924 immediately followed. Now was seen the result of Baldwin's declaration of belief in a protective tariff policy. Not only did many of the industrial workers of Great Britain leave the Labor party, but there was evidently a large secession of business and industrial elements from the Liberal party, which went over to the Conservatives, and reduced the Liberal ranks to a poor third place. While Baldwin since then has been compelled by the exigencies of practical politics to go slowly in his tariff reform, or even to disguise it under the form of the "safeguarding" of special industries, yet there is a great probability that he has succeeded in permanently allying with the Conservative party these same business and industrial elements which are, as stated above, a necessity for continued party success.

Early Tariff Policies

This is merely a modern instance of the line of strategy early adopted by the leading spirits of the newly-formed Republican party seventy years ago. While the platform of 1856, at the time of the first national campaign in which the party tried out its strength, did not mention the subject of a tariff, yet by the year 1860, a shrewd policy was undertaken which started the Republican party upon its many years of domination in American politics, and stands it in good stead at the present time, as the recent triumph of Mr. Hoover amply proves.

This was accomplished by the adop-

tion at the Chicago Convention, which nominated Abraham Lincoln for the Presidency, of a plank which read,

> While providing revenue for the support of the General Government by duties upon imports, sound policy requires such an adjustment of these imports as to encourage the development of the industrial interests of the whole country; and we commend that policy of national exchanges which secures to the workingmen liberal wages, to agriculture remunerating prices, to mechanics and manufacturers an adequate reward for their skill, labor, and enterprise, and to the nation commercial prosperity and independence.

It is significant that the delegation to the Convention from the state of Pennsylvania received this plank with noisy demonstrations of approval. They knew what the rank and file of their people wanted. By this assumption of a protective tariff policy the hitherto "rock-ribbed" Democratic state was permanently changed into one with an equally strong, and more lasting, devotion to the Republican party, which has continued steadily up to the present time.

The Civil War, with its further necessity of raising huge sums of money by every means known to legislative taxation, added further to the protective policy, and the enormous increase of tariff rates due to this cause gave an added impetus to industrial expansion, and also confirmed more strongly than ever the belief of the Republican voters that the tariff not only was an infallible means of guarding national prosperity, but also was the means of anchoring in the party the business and industrial elements among the American people. Whatever may be the measure of truth in the first statement, there is no question of the essential correctness of the latter. And it is on this basis of tariff devotion that the Republican party has worked almost without deviation since that time.

But there is another element of popular electoral success that has been pointed out repeatedly by students and observers of our political history. That is the existence of another necessity,—the securing of the political support of the agricultural interests, especially in the West. This was accomplished in 1860 by the advocacy of the "homestead" policy of free land for settlement by farmers of this and other countries, with the added attraction of anti-slavery sentiments under the form of "free soil" and "free speech." By this means, and also by persuading the farmers that a protective tariff was of direct benefit to them,—a much more doubtful matter,—the combination was made of business and industry with agriculture, and Lincoln's election was the result. All this was a forecast of what was to become the traditional Republican policy of the succeeding years, and may be considered the basis of the election of Mr. Hoover.

Effects of the World War

The World War, by its cutting off or reduction of competition from the manufacturing countries of Europe, acted much in the same way as did the Civil War. It gave protection to American industries to such an extent that in some cases there was a species of hot-house forcing in many lines of production. The Armistice threatened a flood of foreign goods produced under the exceptional conditions of inflated currency and over-growth of the supply of labor that immediately followed the demobilization of the armies. The necessity of special protection, even of an emergency character, to prevent a possible overwhelming of American industries along many lines, was not only recognized by the thoughtful and able statesmen among the leaders of the Re-

publican party, but was taken advantage of by less worthy elements. These latter consisted of some individuals of a demagogic turn of mind who were looking for special opportunities of personal advancement, and also by others, such as Mr. Fordney of Michigan, the erstwhile chairman of the Committee of Ways and Means of the House of Representatives, whose sole political stock in trade seemed to be a worship at the shrine of outworn Republican doctrines. They coöperated with more or less selfish elements among the manufacturing and industrial interests who believed that they should be protected first, last and always, and the public, who had to buy the products and pay the bills, only as a matter of incidental favor.

It is true that some objections were made to this wholesale giving of largesse to special interests. That there were some instances of troubled consciences is made evident by the provision in the Fordney-McCumber Law that increased the power of the Tariff Commission, according to which it was to make investigation and recommend to the President the raising or lowering of rates in order to meet differences in the cost of production between the United States and abroad. This, as might have been expected, has proved futile. In the first place, most of the changes have been upward, for interests naturally took this added advantage to increase their gain, and, in several instances, with success. There is nobody who "loves" the consumer, at least to an extent to take the time and make the effort to readjust downward any oppressive and excessive rates of duty.

And an impossible task was placed upon the Commission. It has proved impossible to get all the evidence necessary to determine the differences in the cost of production between American and foreign manufactures, for the business and industrial interests of other countries are hardly so naïve or so foolish as to open their books to the inspection of foreign officials, and, furthermore, there are often greater differences between costs of production in different parts of the United States than between our own and foreign manufactures. If the Commission had succeeded in learning the cost and doing the technical part of their work, inevitably it would have stepped on somebody's toes, and Congress would have promptly legislated it out of existence.

It is at this point that there may be mentioned the fundamental mistake in much of the tariff legislation, fathered not only by the Republican leaders from time to time in our political history, but also actively assisted by Democratic members who hoped to escape any trace of party responsibility in their attempts to secure advantages for special interests located in their own Congressional districts or possessed of means of effective propaganda and legislative coercion.

Tariff a Necessity

It may be taken for granted that no matter what theoretical arguments economists may bring against a protective tariff as a system, yet it must be recognized as a fact that for practical and business reasons such a tariff is a necessity, at least at the present time and under the present system of world organization. This fact is the same as that perceived by Alexander Hamilton more than a century ago, when he drew up his celebrated financial plans for our newly-established government. His theory of protection, which the present writer thinks is the correct one, is that the object of protection should be the welfare of all of the people as a corporate and political, as well as an economic

unity. The welfare of specific industries or interests should be subordinate.

The Fordney-McCumber Tariff does exactly the opposite. It protects specific industries, and the people at large only incidentally. The whole tariff was drawn up in an atmosphere of logrolling, and legislative bargaining and trading was the underlying principle. It is one of the most ill-drawn legislative acts of recent political history. It is probably near the actual truth to say that, taking for granted some principle of proper and adequate protection of American business and industry, the country has prospered in large part due to post-war conditions abroad and in spite of, rather than on account of, the Fordney-McCumber Tariff.[1]

As an offset to this increase in favor of the business and industrial elements of the population, it was attempted to meet the desires of the farmers by levying new duties on agricultural imports or by large increases in the pre-existing rates. This resulted in almost abject failure, as shown by agricultural depression, and by political discontent taking its expression in such silly legislative nostrums as over-expansion of bank credits under governmental patronage and the McNary-Haugen Bill, wisely and courageously vetoed by President Coolidge. Aside from dairy products, citrous fruits and such exceptional things, it is almost impossible to protect the farmer in any measure comparable to what has been done, rightly or wrongly, for labor and manufactures. And the consumer, seemingly forgotten in a saturnalia of protective intoxication, continues to be exploited in an outrageous manner, and to "pay the bill." This forms the background of the recent Presidential campaign of 1928.

[1]See W. S. Myers, *The Republican Party: A History*, pp. 465–7.

PRESIDENTIAL PLATFORM, 1928

The platform adopted at the Kansas City Convention contained a strong plank supporting the protective tariff in no uncertain terms. It said:

> We reaffirm our belief in the protective tariff as a fundamental and essential principle of the economic life of this nation. While certain provisions of the present law require revision in the light of changes in the world competitive situation since its enactment, the record of the United States since 1922 clearly shows that the fundamental protective principle of the law has been fully justified. . . . Nor have these manifest benefits been restricted to any particular section of the country. They are enjoyed throughout the land either directly or indirectly. Their stimulus has been felt in industries, farming sections, trade circles, and communities in every quarter. However, we realize that there are certain industries which cannot now successfully compete with foreign producers because of lower foreign wages and a lower cost of living abroad, and we pledge the next Republican Congress to an examination and where necessary a revision of these schedules to the end that American labor in these industries may again command the home market, may maintain its standard of living, and may count upon steady employment in its accustomed field. . . . A protective tariff is as vital to American agriculture as it is to American manufacturing. The Republican party believes that the home market, built up under the protective policy, belongs to the American farmer, and it pledges its support of legislation which will give this market to him to the full extent of his ability to supply it. Agriculture derives large benefits not only directly from the protective duties levied on competitive farm products of foreign origin, but also, indirectly, from the increase in the purchasing power of American workmen employed in industries similarly protected.

Mr. Hoover loyally supported the essential principles of the platform

statement by saying, in his speech of acceptance:

> We have pledged ourselves to make such revisions in the tariff laws as may be necessary to provide real protection against the shiftings of economic tides in our various industries. I am sure the American people would rather entrust the perfection of the tariff to the consistent friend of the tariff than to our opponents, who have always reduced our tariffs, who voted against our present protection to the worker and the farmer, and whose whole economic theory over generations has been the destruction of the protective principle.

Mr. Hoover elaborated this sound and conservative statement during the course of the subsequent campaign by his speech in Boston, Mass., on October 15. He there showed himself a strong protectionist, and disclosed his ideas upon the method to be employed in future tariff revision by stating:

> The Tariff Commission is a most valuable arm of the Government. It can be strengthened and made more useful in several ways. But the American people will never consent to delegating authority over the tariff to any commission whether non-partisan or bi-partisan. Our people have the right to express themselves at the ballot upon so vital a question as this. There is only one commission to which delegation of that authority can be made. That is the great commission of their own choosing, the Congress of the United States and the President. It is the only commission which can be held responsible to the electorate. Those who believe in the protective tariff will, I am sure, wish to leave its revision at the hands of that party which has been devoted to establishment and maintenance of that principle for seventy years.

The Democratic candidate, Governor Alfred E. Smith, virtually "gave up the ghost" on the tariff question by declaring for the protective principle even though the spirits of Grover Cleveland, and other political saints, long made perfect, might arise to haunt his gay and enthusiastic campaign progress. He merely suggested tariff readjustment after due investigation at the hands of a non-partisan commission. The collapse of his campaign and the destroying results of the election have removed temporarily the Democratic party as any strong or consistent opponent of Republican ideas of what should be done with the tariff during the next two years, at least.

TARIFF RESPONSIBILITY

As matters stand at present, it would seem that one of the most portentous and dangerous problems now facing Mr. Hoover and the Republican party is that of this very tariff question. Having complete control of both the executive and legislative branches of the national government, the complete responsibility for what may be done lies squarely on the shoulders of that party. Mr. Hoover is a man of insight, deep thought, sound judgment, and is not apt to be unduly swayed by matters of purely partisan moment. He has received such an overwhelming endorsement at the polls that he may be considered in reality stronger than his party, and the members of the two Houses of Congress would do well to realize this. But when the stress and strain of actual legislative process appear, and selfish interests and ruthless propaganda show their sinister influence, a strong public opinion should be aroused in order to protect the rank and file of our people from exploitation by selfish interests of all sorts and kinds, and not confined to one class or division of the country.

It often is charged that recent tariffs have been of such a height that overprotection has been the result. This has literally meant the protection of inefficiency. Many students of the subject hold, whether rightly or wrongly,

that this is the prime cause of the present difficulties in the textile trades of New England. For years over-protection caused this industry to lapse into the lethargy of inefficient management. Now that the South has come into this field, with new machinery, new buildings, latest methods of production and marketing, lower costs, and native and vigorous labor to draw upon, the New England plants literally are unable to compete with new and efficient Southern enterprise. Of course they do not see the problem this way but are howling for "more protection," and doubtless they will get it, for they are politically well organized, have ruthless propaganda, and their economic education has not given them a new thought since the beginning of the present century.

Furthermore, there is no doubt that some of the most highly protected interests are paying the lowest wages and the lowest dividends. Yet labor, as well as the public in general, does not detect it. Under present conditions, both national and international, there is every prospect of a further orgy of protective tariff legislation beyond all reasonable limits, and with the use of this perfectly logical and necessary means of national welfare driven to a point of actual domestic injustice and international menace, the question is, will our many leaders in Congress and the Republican party, who are of undoubted ability as statesmen, and possessed with a sincere and unselfish regard for the *public* welfare, as well as the leaders of thought who are outside of official position,—will they unite to handle this present problem along the lines of general welfare, and not that of grasping special interests?

PURPOSE

A proper and well-balanced tariff, and a protective one too, should be carefully arranged to give necessary protection, and no more, to our industries that plainly need it, and at the same time should make possible the sale of goods to us by foreign countries. Otherwise, we shall have their discrimination against us, the shutting off of foreign markets, and their inability to pay us the interest, much less principal, of the approximately fourteen and a half billion dollars worth of American private investments abroad,—not to mention the ten or more billions of governmental, or war, debts.

It would seem probable that, due to labor-saving machinery, increased efficiency and standardized production, we shall continue to increase our output, and we should do so if there is to be better living and increased value and purchasing power of wages. But only increased foreign trade will meet the immediately consequent, but probable, unemployment and business depression that may appear in the next few years, until it is possible, though not necessarily probable, that our expanding population may catch up for a time with the then level of production. The idea of helping the farmer by piling on more agricultural protection is hardly worthy of argument, except in a very few cases, such as lemons, eggs, butter, and other like things for which the average consumer must pay very dearly. This will, of course, tend to "increase the cost of living" for the wage earner, with further demands for increased wages, and further "increase in the cost of everything the farmer must buy." Thus will continue the endless circle until the American people wake up to the modern and American idea of helping people to help themselves, rather than helping them in spite of themselves. And for "people," may be substituted manufacturers, laborers, farmers, and any other interested classes.

The Democratic Party and the Tariff

Provisions of the Democratic Platform of 1928 in Respect to the Tariff

(From the Appendix to the *Congressional Record* of July 2, 1928, page 11308)

(Editor's Note.—As it was not possible to secure an article on the Democratic Party and the Tariff from any one of several prominent men who were asked to contribute it, the following excerpts are printed here to show the Democratic attitude toward tariff in the presidential campaign of 1928.)

The Democratic tariff legislation will be based on the following policies:

(a) The maintenance of legitimate business and a high standard of wages for American labor.

(b) Increasing the purchasing power of wages and income by the reduction of those monopolistic and extortionate tariff rates bestowed in payment of political debts.

(c) Abolition of logrolling and restoration of the Wilson conception of a fact-finding Tariff Commission, quasi-judicial and free from the Executive domination which has destroyed the usefulness of the present commission.

(d) Duties that will permit effective competition, insure against monopoly, and at the same time produce a fair revenue for the support of Government. Actual difference between the cost of production at home and abroad, with adequate safeguard for the wage of the American laborer, must be the extreme measure of every tariff rate.

(e) Safeguarding the public against monopoly created by special tariff favors.

(f) Equitable distribution of the benefits and burdens of the tariff among all.

Wage earner, farmer, stockman, producer, and legitimate business in general, have everything to gain from a Democratic tariff based on justice to all.

Excerpt from Governor Smith's Acceptance Speech, August 22, 1928

Acting upon the principle of "Equal opportunity for all, special privileges for none," I shall ask Congress to carry out the tariff declaration of our platform. To be sure the Republican Party will attempt in the campaign to misrepresent the Democratic attitude to the tariff. The Democratic Party does not and under my leadership will not advocate any sudden or drastic revolution in our economic system which would cause business upheaval and popular distress. This principle was recognized as far back as the passage of the Underwood Tariff Bill. Our platform restates it in unmistakable language. The Democratic Party stands squarely for the maintenance of legitimate business and a high standard of wages for American labor. Both can be maintained and at the same time the tariff can be taken out of the realm of politics and treated on a strictly business basis.

A leading Republican, writing in criticism of the present tariff law, said:

> It stands as one of the most ill drawn pieces of legislation in recent political history. It is probably near the actual truth to say that taking for granted some principle of protection of American business and industry, the country has prospered due to post-war conditions abroad and in spite of, rather than on account of, the Fordney-McCumber tariff.

What I have just quoted is no part of a campaign document. It was written a few months ago by Professor William Starr Myers of Princeton University, writing the history of his own party.

Against the practice of legislative log-

rolling, Woodrow Wilson pointed the way to a remedy. It provided for the creation and maintenance of a non-political, quasi-judicial, fact-finding commission which could investigate and advise the President and Congress as to the tariff duties really required to protect American industry and safeguard the high standard of American wages. In an administration anxious to meet political obligations, the Commission has ceased to function and it has been publicly stated by former members of it that the work of the Commission has been turned over to the advocates of special interests. To bring this about, it is a matter of record that the President demanded the undated resignation of one of its members before he signed his appointment.

I shall restore this Commission to the high level upon which President Wilson placed it, in order that, properly manned, it may produce the facts that will enable us to ascertain how we may increase the purchasing power of everybody's income or wages by the adjustment of those schedules which are now the result of logrolling and which upon their face are extortionate and unnecessary.

EXCERPT FROM GOVERNOR SMITH'S SPEECH IN LOUISVILLE, KENTUCKY, OCTOBER 13, 1928

(Stenographic report in the *New York Times* of October 14)

First—I believe that the tariff should be taken out of politics and should be treated as a business and economic problem. I am opposed to politics in tariff making.

Second—I believe in the Democratic platform which recognizes that the high wages and constructive policies established by Woodrow Wilson and the business prosperity resulting from them in America, coupled with the economic ruin of the rest of the world brought about a new condition that committed the Democratic Party to a stand in favor of such tariff schedules as will to the very limit protect legitimate business enterprise as well as American labor from ruinous competition of foreign-made goods produced under conditions far below the American standard.

Third—I condemn the Republican policy of leaving the farmer outside our protective walls. On import crops he must be given equal protection with that afforded industry. On his other products means must be adopted to give him, as well as industry, the benefit of tariff protection.

Fourth—I state definitely that the Democratic Party, if entrusted with power, will be opposed to any general tariff bill. Personally I regard general tariff legislation as productive of logrolling, business confusion and uncertainty.

Fifth—No revision of any specific schedule will have the approval of the Democratic Party which in any way interferes with the American standard of living and level of wages. In other words, I say to the American workingman that the Democratic Party will not do a single thing that will take from his pay envelope a 5-cent piece.

To the American farmer I say that the Democratic Party will do everything in its power to put back into his pocket all that belongs there. And we further say that nothing will be done that will embarrass or interfere in any way with the legitimate progress of business, big or small.

Sixth—I favor a tariff commission made up as hereafter referred to with ample facilities and resources, with broadened powers, and with provision

for the prompt and periodical publication of its reports, which shall be in such form as to present serviceable and practical information.

I consider the method of general tariff revision to be inherently unsound and I definitely pledge that the only change I will consider in the tariff will be specific revisions in specific schedules, each considered on its merits on the basis of investigation by an impartial tariff committee and a careful hearing before Congress of all concerned.

In the belief that provision for a bipartisan Tariff Committee promotes rather than eliminates politics, I would ask Congress to give me authority to appoint a committee of five members from among the best qualified in the country to deal with the problem, irrespective of party affiliations, with a salary sufficiently large to induce them to devote themselves exclusively to this important work.

I would consider it my duty to see that this committee was left absolutely free to perform the important duties imposed upon it by law without the slightest suggestion or interference from any outside agency official or otherwise. I would believe it to be my duty to build up the commission in public confidence and support.

Seventh—I will oppose with all the vigor that I can bring to my command the making of the tariff a shelter of extortion and favoritism or any attempt to use the favor of government for the purpose of repaying political debts or obligations.

Eighth—To the very last degree I believe in safeguarding the public against monopoly created by special tariff favors.

Ninth—I can relieve the Republican Party and its managers of the necessity of spreading false propaganda about the Democratic attitude on the tariff by stating that neither the Underwood nor any other tariff bill will be the pattern for carrying into effect the principles herein set forth.

In conclusion just let me say that with this prescription, honestly put forth, with a clearcut and definite promise to make it effective, I assert with confidence that neither labor, agriculture, industry or business, need have any fear from Democratic victory in November, and, on the other hand, I assert that it will be the prime aim and the prime purpose of a Democratic Administration to extend the benefit of tariff favors to all classes and to spread prosperity generally throughout the United States.

EXCERPT FROM THE PREPARED TEXT OF GOVERNOR SMITH'S SPEECH AT OMAHA, NEBRASKA, SEPTEMBER 18, 1928

(Taken from the *Evening Bulletin*, Philadelphia, September 19, 1928, page 36)

The great fundamental trouble with the farm situation today lies in the undisposed fact that the farmer buys in a protected market, from the hat on his head to the shoes on his feet. For everything needed around the farm not produced by himself he makes his contribution to the tariff system for protection of American industries, and when he produces the crop he is compelled to sell it in an unprotected market. In the basic cash crops the American farmer raises more than the whole domestic market can absorb. He is, therefore, compelled to offer his whole crop at the price of the surplus that is exported. Putting it in other words:

The exportable surplus is offered first in the domestic market and drags down the price of the whole crop.

It has been abundantly demonstrated

that the tariff, standing alone, with respect to crops of which we have an exportable surplus, does not function. The presence of the exportable surplus in the domestic market prevents the farmer from getting the benefit of the tariff. As to these commodities the tariff is like an engine running with no belting to connect it with the machine it is designed to move.

Under the protective system of this country we have interfered with the laws of supply and demand for the protection of industry and labor. No part of that protection has been given to the farmer on his major cash crops; and when we talk about putting agriculture on an equality with industry, we are talking primarily about the problem of making the tariff function for agriculture in the way that it functions for industry.

EXCERPT FROM ADVANCE TEXT OF GOVERNOR SMITH'S SPEECH AT MADISON SQUARE GARDEN, NOVEMBER 3, 1928

(Taken from the *New York Times* of November 4, 1928, page 2)

I repeat here tonight that under my administration there will be no general revision of the tariff; that the tariff, if amended, will be amended in specific schedules, after careful study and investigation of all the facts by a competent, thoroughgoing, able, tariff commission.

The Future Tariff Policy of the United States

By Democritus

It is appropriate that this volume should conclude with an effort to predict the course of events that are soon to emerge from the vagaries of the future and become the actualities of the present. Speculation of this sort is a necessary function of the statesman. It ought to be the prayerful practice of the citizen. Without thoughtful and analytical foresight progress can scarcely exist; upon the reliability of such foresight progress in large measure depends. There is no safer ground for forecast in regard to the tariff than a critical appreciation of the fundamental principles which govern its development and determine its effect upon the national life.

In the United States, as elsewhere, the implications of the tariff are economic and political—economic in that the tariff affects the production and distribution of wealth,[1] political in that it affects relations of the national state with other national states and is the subject of pressure exerted by members of the electorate upon the Government with a view to the control of customs' policy and customs' legislation.

The tariff also possesses some elements of concern to the sociologist [2] because of its effects upon standards of living, and because of its tendency to divide the people of the country into economically favored and economically burdened classes. These matters are real. Though not wholly separable from economic considerations, they are clearly recognizable and may conceivably play an increasing part in the tariff policy of the United States. But they are, and probably will remain, in a minor rôle upon a stage ruled by dominant political and augmenting economic factors.

The Tariff and Economics

The economics of the tariff is simple. The self-contained and self-maintaining human being creates little wealth. Jack of all trades, he can be good at none. When he works in partnership with another he can begin to specialize, to introduce efficient methods, to increase production. The same is true among groups of men, whether locally or nationally organized. Left to itself, this coöperation is capable of expanding indefinitely and of so regulating the productive processes of the world as to locate each at the place or places where the minimum of effort will in the long run result in the greatest material gain.

Trade is the agency by which goods that are produced in the place of greater efficiency are made available for consumption at other places, where the people, according to their capacities,

[1] In former times the United States tariff was of great fiscal significance; with the development of the federal income tax it has ceased, at least as a method of taxation, to be important to the treasury. As a producer of revenue, however, it is successful, contributing during recent years approximately 17 per centum of the total receipts from taxation.

[2] The sociology of the tariff requires few words. If the tariff is a hindrance to wealth-production it must tend to reduce the standard of living. If it tends to emphasize class distinctions—as it must in the United States where it takes money out of the pockets of producers for export, whether agricultural or manufacturing, and arbitrarily places it in the pockets of producers who do not sell outside the country—it cannot altogether escape the attention of the sociologist. Although the tariff is probably indefensible from the sociological point of view, its abrupt elimination would be even more unfortunate in social than in economic results.

are engaged in other forms of production. Thus no one attempts to grow rubber near Detroit for the simple reason that nature has not endowed the plains of Michigan with the essential climatic prerequisites. Neither do the inhabitants of the Federated Malay States undertake to manufacture automobiles. The reason is practically as compelling: there is complete absence of the human intelligence, habits of life and business methods, not to mention most of the raw materials, necessary for the fabrication of complex machinery. If the Federated Malay States refused to import automobiles, few, if any, would be available. Similarly rubber would be all but absent in the United States if the people here were forced to depend upon the sources of supply existing under the American flag.[3] Unlimited labor spent on productive effort to grow rubber where nature has forbidden, or to make machines where fundamental requisites are lacking, would leave the would-be producers as poverty-stricken as before; whereas by trading rubber for autos and autos for rubber, each group of producers may (and does) possess an abundance of both. Where circumstances are less divergent a proportionate gain is, nevertheless, to be derived from producing under the more favorable conditions.

The tariff is a device for artifically diverting the courses of commerce in respect of the people of different national states. In so far as it is successful it normally interferes with effectiveness of labor and hence decreases production.[4] Where the rates have been sufficiently high and in force long enough to permit substantially inefficient industries to develop, the sudden relinquishment of this artificial control of trade and hence of industry would in all probability mean temporary unemployment and economic loss. The efficient industries of the country could be relied upon, however, with the relaxation of the control, that is with increasing freedom of trade, in time to expand sufficiently to absorb the labor thrown out of employment by the stoppage of the inefficient industries.[5]

Where inertia prevents the movement of industry from less to more favorable localities, or the springing up of industries in new and equally favorable localities, the tariff may, with ultimate economic gain, be temporarily employed to furnish the necessary stimulus.[6]

Aside from its use as a temporary expedient, however, there is in economics no justification for the tariff. In pro-

[3] How much rubber *could* be produced in the Philippines forms no part of the present inquiry.

[4] In so far as a protective tariff actually stops the flow of trade, it curtails production, *i.e.*, either stops it or causes it to occur under less favorable conditions.

In so far as goods actually surmount the tariff wall, the production of wealth is not affected by the tariff, but distribution among individuals within the tariff area is affected and distribution between countries may also be affected. This results from the fact that the tariff is actually paid in the form of a tax, the incidence of which cannot be determined, but is probably in most cases upon the ultimate consumer. As the Government must be financially supported, the country as a whole, while probably less wealthy, is not necessarily so because an archaic and unfair method of taxation is employed. But the distribution of wealth within a country is affected by the method of taxation and, in so far as the "foreigner" pays the tariff rate, the distribution of wealth between countries is affected.

[5] Though some students maintain that free trade is closely bound up with free movement of labor, so many wholly non-political and non-economic considerations affect immigration and emigration that little reliance could be placed upon voluntary adjustments even were immigration and emigration restrictions abolished and free movement allowed.

[6] The "infant" industry argument is seldom heard with reference to contemporary United States, though certain World War "babies," notably the dye industry, would doubtless rely on it were their protection threatened.

portion as the people of the United States become acquainted with the elementary principles of the production of wealth they will realize that, in their tariff, they have indulged in an expensive luxury.

The Tariff and Politics

The politics of the tariff is immense. From the point of view of the maintenance of national governments it may, in so far as it assures the production of necessaries of life and of defense within the national frontiers, be readily and convincingly upheld. If in the backwardness of world politics the tariff finds its sole justification, it probably finds in what is vulgarly called "politics" its most nearly unassailable fortress. Both these factors are more imponderable than are the economic considerations which have just been discussed, but they will hardly fail to exercise a large influence upon the future tariff policy of this and other countries.

To the exigencies of partisan "politics," doubtless, are to be ascribed the indefensible doctrines concerning the tariff which so frequently emanate from intelligent sources. Thus it is frequently said that the tariff act of 1922 is not illiberal, the evidence cited being that more than 60 per centum of imports into the United States consist of goods which are on the free list.[7] It seems never to occur to certain expounders of the tariff that if the rates were only high enough 100 per centum of the imports would necessarily be goods to which the duties do not apply.

In the recent Presidential campaign one of the candidates, in an able and convincing address, set forth with clarity and force the orthodox economic doctrines of international commerce, but felt it necessary to intermingle with this exposition a discussion of the tariff based wholly upon current mythical conceptions and consequently wholly inconsistent with the remainder of the address. The future tariff of the United States will not be altogether unrelated to the capacity of the electorate to detect and so to render abortive such lapses among leaders and statesmen. On the other hand, the real or imagined necessity which candidates for office are under to discuss myth rather than fact when the tariff is the subject of debate naturally limits the value of campaign discussion as an index to future development of actual policy and practice. Nevertheless, the platforms of the leading parties and the utterances of their candidates should not be permitted wholly to escape the attention of the student.

The first two Presidential campaigns following the World War witnessed no substantial change in the historic positions of the Republican and Democratic parties. The former proposed and put into practice the doctrine of protection in a most uncompromising fashion, carrying it, indeed, to unprecedented extremes. The latter continued, in the name of opposition to protection as a principle, to stand in fact for its application—in moderation. The pronouncements of 1928, while leaving no little doubt as to their net purport, and while evidently effacing some of the difference that formerly existed between the two parties in that both are now unabashedly protectionist, apparently leave their relative positions very much the same: while the Republicans seem

[7] The presence of a free list is, of course, a liberal element in a tariff law, but the fact that few goods not freely admitted are imported at all is certainly all but conclusive proof of illiberal schedules. The free imports into the United States are almost wholly raw materials not produced, or not producible in sufficient quantities, within the national domains. Even the mercantilists sanctioned the importation of raw materials.

to be even more extreme, the Democrats are decidedly less "moderate."[8]

Accordingly, if partisan statements furnish a test of public opinion, and if the tariff issue played any part in the Republican victory, protection, both as an article of faith and as a guide to works, definitely gained ground during 1928. In other words, the people of the United States at the present time seem to have expressed themselves with no uncertain voice in favor of setting up higher and higher barriers to international trade, regardless of the cost to this country or to the world at large, complacently unmindful of the fact that adding to the cost of production cannot increase prosperity—not even for themselves.

THE CONVERGING INTERESTS OF AGRICULTURE AND MANUFACTURING

The predilections of partisan campaigners and of the too credulous electorate are altogether unlikely to affect the tide of economic development. Both the people and their leaders seem destined for an awakening. In spite of surface indications, it is conceivable that the American tariff policy of this hour may be that darkest one which precedes the dawn.

Certain groups of producers in this country turn out more of their particular commodity than the American people are likely to consume or to care to consume. The individuals of these groups compete with one another in the home market and, under well-known laws of economics, hold the price down to a level approaching that at which production can profitably continue. They must, moreover, sell a part of their produce outside of the United States. Such sales, at least if the goods are of a kind also produced in other countries, will take place at the world market price. If this is higher than the prevailing domestic price, goods will be withdrawn from the domestic market and sold abroad. This process will bring the domestic market price up to the world market price,[9] but it cannot bring it any higher. A "protective" duty on such goods is obviously of no avail. Where the market is already over-supplied and producers must sell in other markets, the price is not raised by cutting off potential imports and the protective effort is futile.

Thus the producers of great surplus staples like soft wheat, cotton, corn (in the form of pork), rye and tobacco cannot charge higher prices by reason of deterring or even prohibitory duties on the importation of those commodities. The application of the rule is not confined to agriculture. It embraces all production. The best single example in

[8] As late as 1920, the Democrats, notwithstanding their use of the income tax amendment, still continued to "reaffirm the traditional policy . . . in favor of a tariff for revenue only." From the point of view of orthodox principles of taxation this is, of course, heretical. In 1924 the Democratic platform called for "a tax on commodities entering the customs houses that will promote effective competition, protect against monopoly and at the same time produce a fair revenue to support the Government." The 1928 platform repeats its predecessor in regard to revenue, effective competition and monopoly. It adds: "Actual difference between the cost of production at home and abroad . . . must be the extreme measure of every tariff rate." As the idea that duties should measure this difference in cost of production is the stated underlying principle of the tariff act of 1922 (see Section 315), the Democrats have, nominally at least, placed themselves in a position resembling that of their opponents. The speeches of their candidate, moreover, leave no doubt that the party has become definitely protectionist in principle as well as in practice. But his advocacy of an increased influence upon rate making to be exercised by an expert commission would, had he been elected, have made probable a gradual decrease of duties. The tradition of the party would, of course, have been in this direction.

[9] The reason is that if the domestic price became higher than the world market price no one would export until competition at home brought the price down to the world level.

manufacturing industry is automobiles. No one contends that the existing import duty on automobiles has altered the price of a single domestic machine.[10] So long as a surplus of automobiles is produced it never will—unless, indeed, the automobile industry should combine to defeat competition and, protected from competition from other countries, charge monopoly prices at home, at the same time probably "dumping" the surplus in other markets. Such a development is as unlikely as it would be illegal.

It cannot be maintained that the wheat farmer (except producers of a few special grades) is aided by the high import duty on wheat or that the cotton farmer has suffered from the absence of import duties on his product.[11] Nor does anyone claim that the repeal of the unsought automobile duty would be a matter of concern to the automobile industry. Such facts are so obvious that they cannot always be hid.

While there may be in prospect a gradual reduction of the agricultural surplus,[12] there is unquestionably an increasing number of manufacturing groups a substantial portion of whose products must find a market, if at all, outside the United States. The future of protection as a practical policy in this country may be said to depend very largely upon the convergence of these two interests.

The manufacturing exporters know they cannot benefit by the tariff. They know that, on the whole, it tends to increase costs of production including, directly or indirectly, their own. Consequently they will, especially if and when competition in their essential external markets becomes keen, advocate a general lowering or abolition of duties. Their success will depend upon their ability to unite with them the farmer,[13] whose interests are the same as theirs. If they become numerous and powerful enough to do this before the farmer ceases to produce for export, their success will be easy. The manufacturers of the last two generations have bamboozled the farmer into voting against his own interests. There is no reason why the intelligent export manufacturers of the future may not with equal skill and better conscience convince the farmer of the truth.[14]

The convergence of the two interests seems likely because every indication points to the continuance of an agricultural surplus long after a very large proportion of American manufacturers will no longer be able to benefit by protective duties.

ADVERSE TENDENCIES

There are, however, certain special considerations, even aside from the persistence of the protectionist myth, that will continue to offset the general tendency toward a voting combination of export agriculturalists and export manufacturers with the objective of liberalized trade conditions.

First among these is the possibility of indefinite expansion in the home market. It is a fact clearly written into industrial statistics that, during the past generation, the vast increase in

[10] Prior to the passage of the tariff act of 1922 certain automobile manufacturers appeared before the Chairman of the Ways and Means Committee and asked that the duty be omitted.

[11] Some 90 per centum of the crop acreage of the United States is devoted to crops of which an exportable surplus is produced.

[12] Those who predict the elimination of the surplus in any foreseeable time probably make insufficient allowance for the decreasing rate of population growth and for progressive improvements in agricultural production.

[13] A minority of farmers, *e.g.*, the producers of wool, flaxseed and hard wheat, are, as is well known, now in a position to benefit by the protective duties on their output.

[14] The increasing intelligence of the farmer is such that it is unlikely that anything but the truth can continue to convince him.

exports has not appreciably increased the proportion of the total American product that is sent outside the United States. This is true of manufactured goods as well as of the produce of the farm.[15] While the non-increase of the proportion of exports to total production need not affect the increase in the proportion of producers who export a sufficient percentage of their output to give them the exporters' point of view, the fact that the first ratio remains small detracts from the national appreciation of the benefits of a commercial policy formulated for the benefit of exporters.

In the second place there are undoubtedly some industries that under no probable circumstances will be able to meet home market demands and consequently will always clamor for protection, claiming that they cannot live without it. They will, of course, always assert that the salvation of the country depends upon the continuation by the people of the traditional practice of protecting them. The fact that they require greater outlay of energy than would be necessary to produce some other commodity in sufficient quantities to purchase abroad the equivalent of their entire output is unlikely to impress them. Outstanding examples include wool and sugar, both essentially agricultural and both in their nature able to invoke the national defense argument; but it is by no means certain that free trade would affect the continuance of either.

Thirdly, in a vast territory such as that of the United States, there are certain to be industries which in some sections enjoy a comparative advantage over competitors in other countries and in other sections suffer a comparative disadvantage. Or, there will be plants of varying efficiency, the bulk seeking no protection, the marginal producers clamoring for it as a matter of life and death. An example is seen in the coal industry. In general it has no need or desire for protection and no duty was imposed under the tariff act of 1922.[16] But a few mines near the frontier met with severe competition from freely imported coal from Canada. The operators were likely to have more influence at Washington than the vast interior coal interests, which, while not seeking protection, were unlikely to detect, so far as they were concerned, any considerable harm in it. Accordingly duties were placed on competing Canadian coal. The consumer is customarily frozen out of the discussion and may also freeze for want of the price of fuel without evoking any perceptible sympathy among protectionist lawmakers.

Such considerations warn the impatient economist that he must bide his time before the industrial life of the country can be put upon a more effective basis in the production of wealth. They do not, however, alter the ground swell that may conceivably, in another decade or so, develop a public opinion, backed by enlightened selfish interests, in favor of a sustained movement toward greater freedom of trade. This is a different thing from a mere transitory revolt of consumers such as cut short the careers of the tariff acts of 1890 and 1909. The world-wide development of transportation, communication and commerce bids fair to accelerate the movement. Efforts for world peace and the reduction of armament, in proportion as they make progress, tend to deprive protectionists of the defense argument—the only argument they possess which may be said to have a continuing basis in reason.

[15] *Commerce Year Book,* 1928, Vol. I, p. 92 *et seq.*

[16] Under the proviso to paragraph 1548 of the tariff act of 1922.

THE DECISIVE CONSEQUENCE OF OTHER COUNTRIES' TARIFF POLICIES

While in international law the tariff remains a matter which is solely within the jurisdiction of the respective countries of the world, in international fact there are few subjects that are less exclusively of domestic concern. International practice recognizes this and the tariff is, directly or indirectly, the subject of countless treaties. The tariff of any important country and the combined tariffs of all the countries constitute a vast trade barrier that consumes much of the energy of the world in comparatively inefficient production, to the destruction of potential wealth and the repression of human happiness.

The subject of the reduction of tariffs bears a number of analogies to that of the reduction of armaments, among them the practical difficulty which one country faces in reducing its tariffs while others are increasing or leaving stationary theirs. Reductions are most likely to be made on behalf of a country's export interests. But such action would be futile if other countries' markets should be effectually closed by high import duties. The mere lowering of import duties at home can hardly do more than to reduce the production costs of the exporters and, by increasing purchasing power in other countries, to stimulate exchange. It cannot guarantee the entry of American-made products into other markets. Accordingly, reductions at home, in order to be fully justified and effective, must be matched by reductions abroad. This requires coöperative action. There is never any lack of pressure upon the Government to seek reductions in other countries' tariffs. As this pressure increases there may develop a willingness to pay the necessary price: reciprocal reductions at home. Such result will doubtless be achieved if and when the interests of the exporters become more potent in American legislative halls than the interests of producers for the home market only.[17]

A definite step in the direction of an international point of view, as well as of protecting its own export markets, was taken by the United States in 1923 when it entered upon a policy of assured equality in the matter of the application of its tariff laws among outside countries.[18] A system of commercial treaties respectively assuring each party's exporters of tariff treatment in the other as favorable as that accorded to their competitors exporting from any third country undertakes to establish a régime of equality among the countries of the world and to abolish special privileges and discriminations. As such it promotes world commerce by its inherent fairness and by the resulting stability of markets. Countries that enter into treaties altering tariff duties must accord the lower rates to all countries to which they have promised equality of treatment.[19]

This policy finds a sound economic

[17] The immediate interests of professional people, domestic employees, transportation, insurance, amusements, hotels and restaurants, the building trades and others would, of course, be served by free trade. The numbers so engaged are important and may be counted upon to swell the ranks of voters who will back the exporters when the latter are ready seriously to challenge the protectionists in a national election.

[18] The first treaty containing the unconditional most-favored-nation clause to receive the advice and consent of the Senate to ratification was that signed December 8, 1923, with Germany. Senatorial approval was not, however, given until 1925. Beginning with 1923 a number of executive agreements containing this clause were concluded between the American and other governments.

[19] Even countries which, like France, repudiate the most-favored-nation clause, or, as it is more accurately called, the *equally*-favored-nation clause, as a part of their commercial treaty policies, in practice widely employ it.

basis in the fact that it encourages the production in the world's most suitable places of the respective articles that mankind consumes. Equality of treatment as a national policy avoids artificial stimulation to groups of exporters in one outside country as compared with others and hence leaves opportunity for natural selection. Reduced rates, moreover, which may be accorded by one country to specified goods from another for the purpose of enhancing exchange with it, may be accorded also to similar goods from all other countries without in any manner encouraging production in places where production is uneconomic. If the other countries cannot produce such goods cheaply enough to compete, there is simply no result from their enjoyment of equality of treatment.

The approach to unanimity with which the countries have adopted a large measure of equality, as the rule of the application of each country's tariff in respect of all other countries, is an excellent basis for further developments in the direction of a régime of world commerce based upon maximum efficiency of production, regardless of political frontiers. Its whole-hearted acceptance by the United States as a stated policy as well as an accustomed practice is a matter of importance.

But it does not, in itself, affect the height of tariff walls. Only as these obstacles to trade are vigorously attacked in a spirit of international coöperation at least as evident as that shown in the development of the practice of equality does there appear to be hope for national and world production on a really economic basis.

Removal of Inconsistencies

The United States adopted its present policy of equality of treatment in the interests of its exporters. The equality-of-treatment clause in its commercial treaties is the fundamental element in its commercial policy. A very natural course for it to pursue, accordingly, is to develop and perfect this policy. At the present time there remain several serious defects that ought to be cured by legislative action.

The policy of equality is reciprocal. It is sought from other countries in the belief that there are produced in the United States numerous articles which Americans are able to turn out more cheaply than most other countries do and which, consequently, will in all probability be able to find a market in other countries in the absence of tariff discrimination against them. This policy would be futile if a country guaranteeing equality should charge such excessive import duties as effectually to shut out such goods regardless of the economy of their production and regardless of the country of their origin.

Similarly, other countries, in entering into such treaties with the United States, expect something more than an equality of negation. In so far as the United States maintains rates of duty so excessive as to render equality of treatment valueless, it maintains in its tariff schedules a practice that is inconsistent with the policy of its treaties. There are a number of rates in the present tariff act which considerably exceed 100 per centum *ad valorem*. All rates which approach the prohibitive should be altered in the interest of consistency.[20]

In the second place, the United States maintains a colonial policy which is inharmonious with its commercial treaty policy. The equality

[20] Only the fanatical among the advocates of protection seriously propose duties high enough to enable industries at a disadvantage beyond a certain point to exist in the national area. Even to protectionists there are economic limits to protection.

clause in treaties between fully independent states sets forth a policy that is the counterpart of what, in dealing with colonies and dependent areas, is commonly known as the Open Door. In tariff matters the policy of the Open Door connotes treatment not less favorable to products of outside countries which export to the dependent area than is accorded to similar products of the mother country. The United States maintains a closed door in the Philippines and in most of its other colonial possessions and it permits their products to pass through its own customs houses free of duty. It could probably forego these privileges to its exporters with eventual profit if it could at the same time pave the way to open-door régimes in the possessions of other colonial empires and to complete equality in the customs houses of the mother countries.

A third needed development consists in the repeal of a number of paragraphs in the present law which provide for tariff duties at rates differing in accordance with duties which other countries respectively levy upon similar American products imported into their territories or upon their own products when exported to the United States.[21] Differential duties upon such a basis are inconsistent with a policy of equality of treatment and are alleged to be in violation of the treaties of the United States. American export interests can hardly fail to benefit by the elimination of these irritating—and generally futile—provisions.

REDUCTION BY INTERNATIONAL AGREEMENT

An additional step in the interest of exporters, pursuing the method of reduction in coöperation with other countries, may be taken as soon as the United States is ready to begin, even on a small scale, a downward revision of its tariff. For the purpose of carrying out such a revision in the manner most advantageous to its exporters, Congress may appropriately consider whether it is in a position to authorize the President to reduce American import duties by executive agreement and within stated limitations, in return for what he may regard as a reasonable *quid pro quo* for American commerce on the part of other countries.

Preferably, such a grant of authority should be very broad, for example:

> That the President is hereby authorized to reduce by executive agreements with other countries, in return for reciprocal reductions, the rate upon any dutiable product imported from them respectively into the United States, by not more than thirty-three and one-third per centum of the rate now applicable thereto.

If, as is not improbable, Congress should insist upon a greater control and consequently more limited authorization, the foregoing rather rough and ready suggestion could be refined by curtailing the extent of the reductions permitted or by a sliding scale of percentage reductions declining as the statutory rates decline. Such a criterion, however, takes no account of the fact that the mere height of a tariff duty is not a dependable index to its restraining effect upon trade; consequently, unless elaborate statements of guiding principles can be devised in effective form, the better course would probably be a rather simple and far-reaching authorization to the President, trusting to his judgment (and the revocability of the authorization) to assure discretion in its use.

It is essential that, whatever grant of authority is made, the method of Executive Agreement, without refer-

[21] Tariff act of 1922, paragraphs 369, 371, 401, 1301, 1302, 1536, 1541, 1543, 1548, 1585 and 1700.

ence to Congress for approval, be maintained. Suitable limitations as to term, and provision for denunciation on notice of six months or a year, may appropriately be required by Congress, but submission of individual agreement to Congress or to the Senate, however desirable theoretically, would in practice invite separate discussion of each agreement with consequent long delay and not improbable failure of consent.[22] These factors would be fatal to a genuine program of reducing the tariff by beneficial arrangements with other countries.

It would, of course, be understood that reductions to any one country would be generalized to others. This would necessarily be the case in respect of those countries with which treaties providing for equality of treatment are in operation. In view of the American tradition of a uniform tariff, it may be assumed that this country would desire to avoid discriminations against any other country,—unless, indeed, in a particular instance, another country were discriminating against American commerce. Such contingency is sufficiently provided against in present law.[23]

The foregoing method of reducing the tariff is recommended not as a general policy but solely as a policy suitable for the United States in the situation at present maintaining. As a continuing practice, at least so long as the protective impulse retains its current exaggerated form, such a policy would almost certainly lead to statutory tariffs artifically inflated in the expectation of reduction by international agreement and thus to confusion and not to liberalization in tariff policy. But for an existing tariff that is conceded to be too high, a temporary policy such as that outlined seems appropriate. It will be appropriate as a continuing policy also if and when the interests of those controlling the Government dictate a policy definitely directed toward freer trade.

Meanwhile a few "concessions" in the matter of rates of duty would be very persuasive arguments in dealing with certain countries which at present are unwilling to pledge equality of treatment, even, in treaties with the United States.

Administrative Reforms

Pending the time when the development of production for export from the United States makes a real departure from the fundamental element of the American tariff practically possible, that is when protection as a guiding theory may be discarded, the foregoing ameliorative suggestions may not only be pressed by those whose interests are in the direction of a more liberal tariff policy, but certain alterations of an administrative and procedural character may be recommended by them for introduction into American customs law. Often such reforms run counter to no established policy yet relieve inconvenient and irritating situations to a really considerable extent.

Foremost among these are the valuation and cost of production investigations carried on under statutory requirements by American agents in other countries. These create ill-will and hence impede the development of the export trade. Objections by other countries have already greatly limited their scope and it is doubtful whether any assistance they may render to American administrative officers is sufficient to compensate the United States for the cost to its business interests of continuing them. This problem suggests the greater ones of home versus foreign valuation and of *ad*

[22] Experience with agreements concluded under the tariff act of 1897 amply demonstrates this.

[23] Section 317, tariff act of 1922.

valorem versus specific duties, both of which might profitably be re-examined in the light of present conditions and with disregard for tradition.[24]

A steadily pursued effort to persuade countries to which American goods are exported to abolish useless formalities, and to consider whether such requirements as those for certificates of origin accompanying export shipments may not be greatly curtailed, would probably prove a real help in encouraging the marketing abroad of American products—particularly manufactured goods, which class of goods is most often the victim of repressive customs formalities.[25]

CONCLUSION

The tariff is and must always remain essentially an economic question. Its actual operation, however, will hardly be governed by economic principles until political considerations growing out of popular ignorance and international discord or threats of discord are more nearly eliminated. As an economic question it must be viewed on its merits. Does it cause an increase or decrease of material wealth? Does this increase or decrease affect merely the world generally or also the country that maintains the tariff? The answer to each of these questions is an irrefutable argument for free trade.

A vast array of non-economic argument enters in. Such argument is put forward largely by group interests. It is sustained by a lack of widespread training in economics and by lack of faith in the capacity of the world to outgrow war.

In the United States group interests appear to be tending toward a situation where legislative control will lie with those who will clearly and unmistakably benefit by decreasing tariffs, and, eventually, by free trade. Economics is being taught to a wider audience in the schools and universities than ever before. The movement for world peace was never so hopeful as at present.

There are not many industries of any importance which are at present likely to benefit by tariff increases, or even by the continuance of a tariff of the general high level now maintaining. Accordingly, the pressure of exporters' and consumers' interests may be expected to become gradually more effective. General interests argue against sudden or even rapid tariff changes. But the United States is in a position where it can pursue its national best interests by subscribing to the conclusion of the World Economic Conference, 1927,

> that the time has come to put an end to the increase in tariffs and to move in the opposite direction.[26]

In so moving the outlook is favorable to the conclusion of coöperative arrangements with other countries. Such arrangements, together with improvements in the administration of the tariff are necessary and helpful meas-

[24] Valuation for the purpose of levying American *ad valorem* import duties is at present governed chiefly by actual prices maintaining in the country from which the goods in question have been exported. It is made possible largely by an elaborate system of accompanying invoices certified to by American Consuls. "American" valuation, or valuation based on prices maintaining in the market here, would result in greatly increased duties unless the stated rates should be relentlessly slashed. The difficulty of obtaining corresponding rate reductions from a Congress governed by high protectionists caused the outburst of public opinion which defeated the proposal when the tariff act of 1922 was still in its formative stages. See, however, sections 315 (b) and 402 of the act as passed.

[25] In this connection it may be remarked that the United States is not a party to the convention for the simplification of customs formalities, 1923, now in force among most of the leading commercial countries.

[26] *Final Report*, p. 30.

ures that one may confidently expect without long delay. They may well become an important element in the tariff policy of the United States. Coöperation with other governments is not only the most helpful, but surely a necessary, method of carrying out a policy of gradual reduction. But emphasis upon conservative methods should not be allowed to blind us to the radical character of what ought not to be the too-long-delayed result: the economic interests of the country demand that the future tariff policy of the United States shall be the elimination of the tariff.

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Gooch, George Peabody. *Recent Revelations of European Diplomacy.* Pp. lx, 218. Price, $3.00. London and New York: Longmans, Green and Company, 1928.

This volume is an invaluable contribution to the study of responsibility for the World War. In 1922 Dr. Gooch published an article with the same title in which he characterized the more important documentary publications, memoirs and the like which had appeared since 1918 and bore upon European diplomacy from 1870 to 1918. A large mass of materials has been published since this brochure came out, and in 1927 Dr. Gooch found it necessary to expand his treatment into a compact volume describing the progress of the war guilt literature. Now he has brought out a new edition of this work which is enriched by an additional section commenting upon the more valuable publications issued during the year 1927. He considers the publications by countries and describes them all with that combination of wisdom and brevity for which the author is justly renowned. Dr. Gooch limits himself to the diplomatic documents, memoirs, diaries and specialized monographs and devotes little or no attention to the general synthetic expositions of war responsibility by such writers as Montgelas, Fabre-Luce, Morhardt, Bausman, Barbagallo, Lutz and others. In general, Dr. Gooch's characterizations of the materials he surveys are sound and penetrating and distinguished for objectivity and impartiality, but at times the value of his comments is lessened by his disinclination to speak with frankness of myth-mongers in high places. For example, he describes Poincaré's *Au Service de la France* as though it might be regarded as a serious historical work justifying the author's claim of pacific intent in 1914, while Professor Fay finds Poincaré's explanation of his attitude towards the Russian mobilization in 1914 completely unconvincing. Likewise, Dr. Gooch apparently takes seriously Sazonov's memoirs, though Montgelas and Stieve have utterly riddled them and though so cautious and moderate a writer as Professor Fay regards them as worthless from an historical point of view. Dr. Gooch makes a last desperate effort to save the thesis of equal responsibility for the World War, but he succeeds only through contending that murder in self-defense is as reprehensible as murder for loot: "It is true that while Austria fought under the banner of self-preservation, Russia, whom nobody threatened to attack, marched out to battle in the name of prestige."

Harry Elmer Barnes.

Daggett, Stuart R. *Principles of Inland Transportation.* Pp. 705. Price, $4.00. New York: Harper & Brothers, 1928.

The several phases of transportation other than ocean shipping are discussed in one volume by Professor Daggett. The book includes a wide range of subjects, the reason for the broad scope of the book being explained by the author in his preface

There was some question in the author's mind as to the impression that would be made upon the reader by including in the book "a considerable amount of economic geography." The author felt that attention should be drawn "to the flow of traffic which carriers are organized to promote," and for that reason there are chapters upon the "Localization of Sources of Supply," "Routes Connecting Producing and Consuming Territories—The Great Lakes," "Major Railroad Routes in the United States," and "Commodity Movements." There are three chapters on commodity traffic—one on grain, another on live stock and fruit, and a third upon lumber, cotton and sugar. These chapters upon economic geography are the least satisfactory part of the volume, and it is questionable whether the space thus taken up might not have been used to better advantage in discussing railroad and highway transportation as business enterprises.

A strong feature of the book is that it is clearly and interestingly written. On the whole the book is entertaining as well as instructive. The pleasing style of the author, however, is somewhat impaired by a tendency at times to set forth the elementary and obvious. Presumably the author felt that he was writing for the general public as well as for the special student of transportation.

The best part of the volume is that dealing with legislation and government policies. The laws of the states and the United States regulating transportation are well summarized, and there is a good account of the operation of the railroads by the United States Government during and for a while after the World War. The strongest feature of the book is the discussion of the railway policies of Great Britain, France and Germany. These chapters on foreign countries are the best that have yet been written upon their respective subjects.

If one were to criticize a work of such high merit, the criticism would be concerned with:

1. The advisability of including an elementary account of transportation and agricultural geography. The chapters devoted to these subjects constitute a digression from the main subject of the book, and the reader is relieved when he is past them.

2. The treatment of rates, which is notably inadequate for a work of such importance and merit. Indeed, the reader will find only an inadequate account of the rate structures of American railroads and the rate-making policies of carriers by highway and inland waterways.

3. The need of emphasizing the business organization and management of transportation. In general the subject matter of Dr. Daggett's book is like that of previous books upon transportation, 40 per cent of the space being devoted to legislation and government policies. The time has come for the study of carriers by rail, highway and waterways as business organizations. Transportation needs to be discussed and studied as is marketing, banking, insurance and other phases of business.

The volume is strengthened by numerous line maps and diagrams, and by excellent chapter bibliographies. It is a book that will be carefully read and appreciated by all students of transportation.

EMORY R. JOHNSON.

CARTER, JOHN. *Conquest—America's Painless Imperialism*. Pp. x, 348. Price, $2.50. New York: Harcourt, Brace & Co., 1928.

This is one of the sententious books of 1928. It contains few new data; its facts are known. But the interpretation is new and warrants attention. The safe and sane analysis of international problems here constitutes a real contribution toward making war "unthinkable."

The book is addressed to three groups of people—first to "that section of the American public which believes that the United States lacks a constructive foreign policy and that it is usually wrong in any controversy with a foreign power"; second, to "those foreigners who, through unfamiliarity with our methods, suspect that the United States has entered upon a course of imperialism"; and third, to "those American officials who have been prevented from winning a hearing for our national policies by the public apathy toward our political traditions."

Mr. John Carter, the author, knows whereof he speaks, because he has for years been associated with international affairs. His preceding book, "Man is War," was a diagnosis of political disease in international society. His "Conquest" is a speculative interpretation of our present economic predominance in world affairs and of its probable effects upon us and the rest of the world.

The book traces the historical background of American imperialism and in general supports the movement as a development, natural and defensible from the United States' point of view and largely beneficial to the world from a broader viewpoint. Mr. Carter's interpretation of America's "painless imperialism" is not based on logic, which he characterizes as "the last resort of fools and Frenchmen," but on common sense. He shows that we are not a politically-minded people, that we are inclined to think instead in terms of

broad and annoying principles. He holds that we harbor no desire to impose our civilization on the world. Our policy of isolation is not a refusal to deal with the world; it is merely a refusal to deal with Europe "on the basis of national favoritism."

This book is refreshing in its clear exposition of international relations. Pithy phrases and pregnant construction constantly occur. Diplomats should read it in spite of its pungency. The style is trenchant and great international problems are analyzed so tersely and yet so almost flippantly that he who runs may read their meaning. The League of Nations, "Wilson's widowed institution at Geneva," is a "valuable American peephole into Europe." It is "a sheet of idealistic fly-paper in which the nations buzz and struggle." Wilson was "a Machiavelli of democracy, an idealistic Bismarck" who insisted on "shooting men into self-government" in Latin America. His chief claim to fame was "that he very nearly succeeded in disinfecting European statecraft."

This book is a remarkably keen criticism of American political life and of our foreign policies. Hughes and Kellogg are both praised and condemned in the chapters on "New Men and Old Policies" and "Old Men and New Policies." In his chapters on "Infantile Imperialism" and "Empire on Installment Plan," Mr. Carter sounds somewhat jingoistic, but under the rippling sarcasm is a deal of common sense and a mental alertness that resolves complex situations into their component parts.

While the author believes that the economic subordination of the world to the United States is being slowly accomplished, he appreciates that the process is fraught with dangers. With occasional exaggerations and with its striving for effect in statement, this book is, nevertheless, authoritative. It is masterly in its survey and forceful in its warnings as to our future foreign policy. "If the world printed its maps in economic rather than political terms, it would reveal the United States as the economic arbiter of mankind," says Mr. Carter, but he adds that "our interest in the world is to influence without governing, to collaborate without acquiring, to expand without acquiring, to prosper without compulsion."

HARRY T. COLLINGS.

KIRSH, BENJAMIN S. *Trade Associations: the Legal Aspects*. Pp. 271. N. Y. Central Book Co., 1928.

Among the numerous recent works on Trade Associations this one deserves a prominent place. The book deals with the law governing such bodies, but the author has such a complete and well-rounded knowledge of the business and economic aspects of the various problems treated, that his work will be of interest to students of Economics, as it must also be to practicing attorneys and investigators in Political Science.

After two chapters dealing with the general aspects of the law and statistics of trade associations, the work takes up such association activities as uniform cost-accounting, credit bureau functions, patent interchange, foreign trade, uniform basing point systems in domestic distribution, collective buying, standardization, trade relations and restrictions on the channels of distribution.

While each of these problems is an independent one, and the practices arising in each are independently considered by the courts of appeal, the author finds that in general the lawmaker and the courts have approved association efforts to reduce costs, disseminate information, improve and standardize quality, eradicate destructive trade practices. They have condemned efforts to shut off competitors from the market, to fix prices by agreement, to refuse, by agreement to sell or to buy from selected traders, to manipulate prices upward or downward either in buying or selling, to disseminate false information and to exercise oppressive or coercive means and methods.

The statements of the law are exceedingly clear and explicit and are well condensed. Throughout the work the author gives not only the decisions of courts but also the views of economists; he sees a distinct and fortunate trend toward a harmonizing of the law, the interests of the business association and the principles of Economics.

JAMES T. YOUNG.

E. R. GROVES and W. F. OGBURN. *American Marriage and Family Relations* (American Social Science Series). Pp. xiii, 497. Price, $4.50. New York: Henry Holt & Co., 1928.

The most important section of this book is Part II (A Statistical Study of American Marriage), written by Professor Ogburn. It is by far the most ambitious and significant analysis of American marriage which has ever been undertaken. (Chapter IX was previously published in *Social Forces*, September, 1927, under the title "Eleven Questions Concerning American Marriage.") The sex ratio and marriage, historical data on the marriage rate, early marriage, income and marriage, divorce and a regional treatment of the data are among the subjects covered in this essentially factual study. Professor Ogburn has also written a chapter in part III which explains the method of statistical correlation for those who wish to make further use of the data.

In contrast with the method employed in Part II, Professor Groves, who is responsible for the first section of the book (Modern Marriage and Family Relationships), relies upon the time-worn method of verbal generalization, in order to summarize such phenomena as the rôle of the wife and the husband in the family of today, the psychology of the woman who works, family discord, marriage norms, etc. Many of the points which he makes are obvious, if not actually trite, such as his dual classification of men in their reactions to the "demands of the modernized wife" (p. 34), the statement that young children are uncritical of their mothers ("mother is mother, and everything she does is the best that could be done" (p. 72)), the types of family discord (p. 79), etc., to take but a few random samples. A presentation of some case histories, illustrating various types of problems or at least a few concrete illustrations would have strengthened this part of the book as well as making it methodologically comparable to Professor Ogburn's section.

In Part III there appears a questionnaire, presumably prepared by Professor Groves, which is designed to elicit information in respect to "successful marriages."

A. IRVING HALLOWELL.

GOODSELL, WILLYSTINE. *Problems of the Family* (The Century Social Science Series). Pp. x, 474. Price, $3.50. New York: The Century Company, 1928.

This volume is a comprehensive, well-balanced and essentially conservative treatment of the sociological aspects of the contemporary family. Part I (Historical Introduction) consists of a series of chapters which rapidly survey marriage and the family among the pre-literate (primitive) peoples, in the classical civilizations, Christian Europe and Colonial America. In Part II (Social Conditions Reacting Upon the Family) an analysis is made of the effects produced upon family organization by the rise of machine technology and our modern industrial system with special attention to such topics as "Mothers Who Must Earn," and "Public Aid to Mothers and Dependent Children," with comparative data given for European countries. Prostitution and Illegitimacy are also considered in their relation to family welfare. The Woman's Movement, Birth Control and Divorce receive discussion in the ensuing section (Individualism and the Family), while in the last part (The Child and the Family of the Future). The influence of the "newer psychology" and the Nursery School Movement are introduced as salutary factors in the "Renaissance of Family Education." Finally a few general suggestions are presented in respect to legislative, economic and social reforms, but "companionate marriage" necessitates too much of a revolution in popular thinking for immediate adoption. The author pins her faith for the future in education, upon which "rests the chief hope of far-reaching improvement in the family as in every social institution." "Topics for Reports" are appended to each chapter with bibliographical suggestions. There is a good general index.

A. IRVING HALLOWELL.

MAZUR, PAUL M. *American Prosperity*. Pp. xv, 268. Price, $2.50. New York: The Viking Press, 1928.

The author assumes that business men make economics, and that the analysis of business can best be made in the practical workshop of American economics and not

in the academic laboratory. He then proceeds to discuss the foundations of American prosperity in terms of classical economics! His contribution lies not in the fact, as he thinks, that he is a banker and hence superior to the economist, but in the fact that the good Lord gave him a flair for conciseness of statement and lucidity of style.

The net result of good training in economics and practical experience in business coupled with the conciseness of statements and the power to secure interest as an author makes this one of the outstanding books of this decade. The author discusses the evolution of production, distribution, retailing, and of the consumer. He then leads to the age of merchandising and the era of consolidation with its battle for consumer loyalty.

Clyde L. King.

Senior, N. W. *Industrial Efficiency and Social Economy.* Original manuscript arranged and edited by S. L. Levy. 2 vols. Pp. xxiii, 375, 422. Price, \$8.00. New York: Henry Holt and Company, 1928.

Romance exists in the history of political economy, as well as in the discoveries of archaeologists. The literature of economics was recently enriched by the discovery and publication of Ricardo's lost *Notes on Malthus' "Principles of Political Economy."* This volume is now followed by the publication for the first time of a number of the original manuscripts of Nassau W. Senior under the title of *Industrial Efficiency and Social Economy.*

Although the first professor of political economy at Oxford, Senior has been regarded as one of the lesser lights among the British classical economists. This is due in part to his historical position between the imposing figures of his predecessor, David Ricardo, and his successor, John Stuart Mill. It is also due to the paucity of Senior's literary legacy, which consisted chiefly of a small manual of political economy, published originally in the *Encyclopedia Metropolitana.*

Nevertheless, during his professorship at Oxford and while not engaged in his efforts on the famous report on the English Poor Law, Senior had prepared numerous lectures and various manuscripts, many of which have never been published. Indeed, the very existence of some of his most valuable manuscripts was unknown to their possessors.

Credit for the discovery of these important manuscripts of Senior must be given chiefly to Mr. S. Leon Levy of Chicago. This student of the history of political economy knew of Senior's unfulfilled desire to publish a treatise on political economy before his death. The assumption that this material, little of which had appeared in print, still existed in manuscript form led Mr. Levy to undertake his trip across the Atlantic Ocean. He was fortunate in receiving the coöperation of Senior's granddaughter and her husband, who aided in the search which finally yielded the desired manuscripts, undiscovered by former editors and critics of Senior's works.

The editorial work on these manuscripts was a most difficult task, which was courageously undertaken and carefully executed by Mr. Levy. Instead of publishing these lectures and essays in their existing form, Mr. Levy strove to carry out the intention of their author, namely to publish a unified treatise on political economy. In order to carry out this aim, it was necessary for Mr. Levy to select his material from the more mature manuscripts of Senior and then to arrange the entire mass according to a definite scheme of his own, while preserving the original text of Senior.

Accordingly, the first volume is divided into the following parts: Introduction; Human Wants and the Pursuit of Wealth; The Production of Wealth; Capital: Its Nature, Functions, Origin and Growth; and The Pressure of Population on the Means of Subsistence. The second volume contains the following parts: Value, Cost and Price; Money, Credit and Exchange; Domestic and Foreign Commerce; Distribution of Social Income; and Government Control and Social Progress. Editorial notes are placed at the end of each part and there is a general appendix at the end of the second volume.

The publication of *Industrial Efficiency and Social Economy* makes a noteworthy

contribution to the history of political economy, for it gives the world the mature and fairly complete writings of Nassau W. Senior. His position in the history of economic and social thought will be somewhat enhanced. It may be that time will accord to Senior credit for some of the restatement of classical economic theory which was formerly ascribed to Mill. Senior's reputation as a keen critic of contemporary economic conditions and of writers on political economy will surely be increased. On the other hand, the publication of this two volume work reveals no great and original contributions to the theory of value and distribution, such as are contained in Ricardo's *Principles of Political Economy and Taxation*.

S. HOWARD PATTERSON.

CRECRAFT, E. W. *Government and Business*. Pp. xi, 508. Yonkers-on-Hudson World Book Company, 1928.

An introductory college text covering a very large field. The author first views business from the angle of its governmental contacts and then analyzes the functions of government from the economic point of view. The book is well organized and clearly written, in spite of the necessary compression and boiling down of material. It is well indexed and documented, and contains a good bibliography at the end of the volume. It should serve as a good orientation text for students who have had little previous work in economics or government.

S. HOWARD PATTERSON.

SOULE, GEORGE. *Wage Arbitration, Selected Cases*, 1920—1924. Pp. 298. Price $2.00. New York: The Macmillan Company, 1928.

The idea of a case book on wage arbitrations is an excellent one, and Mr. Soule has carried it out in a helpful way. He has selected arbitration proceedings in the New York Book and Job Printing Trade, in the Chicago Packing Industry, in the Railways and in the Cleveland Garment Industry. In each case he gives the nature of and parties to the dispute, the exact question involved, the arguments of both sides, with rebuttals, and the decisions of the arbitrators.

The compiler makes no effort to trace any trend or establish any general principles, but submits only the material, leaving the reader free to draw his own conclusions. It is a case book in which significant disputes only are included, and as such it should serve as a valuable source material for courses in the field of labor and labor law.

JAMES T. YOUNG.

HANKINS, FRANK HAMILTON. *An Introduction to the Study of Society—An Outline of Primary Factors and Fundamental Institutions*. Pp. xiii, 760. New York: Macmillan, 1928.

This text is based frankly upon the belief that a beginning course in sociology should not attack social problems nor deal with any one type of sociological interpretation, but should be broadly introductory. Professor Hankins feels that students cannot gain general insight into human origins and institutions nor prepare for advanced courses in sociology without pertinent materials from basic sciences, and that it is not desirable to postpone social studies until after completing preliminary courses in these other departments. He has, therefore, undertaken to put into this volume the essential background of fact and theory which the sociology student must have. He deals with "the origin of man and his diversification into races;" with "the primary factors in social life—the geographical, the biological, the psychological, and the cultural;" and with "the fundamental arrangements whereby man has solved the major problems of living together in groups, namely, material culture, myth, magic, religion, science, the family and the state."

HORNELL HART.

PARSHLEY, H. M. *Science and Good Behavior*. Pp. 281. Price, $2.50. Indianapolis: The Bobbs-Merrill Co., 1928.

DRAKE, DURANT. *The New Morality*. Pp. 350. Price, $2.50. New York: Macmillan, 1928.

These two authors, the first a professor of zoölogy at Smith, the second a Vassar philosopher, both invite us to think about the last thing in the world we are inclined really to think about. The new morality

of which both write must be based on the biological needs of the individual and must help to solve the problems of a complex society. Parshley is a rebel against the traditional morality because of the violence it does to human nature. Drake is a critic of its shortcomings as a means to social control and social progress. Both agree that the commandments of our morality should be dictated by the various sciences and should change with outgrowing knowledge.

The zoölogist stresses a biologist's view of animal and human behavior, his confidence in science rather than religion or philosophy, and the freedom that the new morality will bring to the individual. The philosopher emphasizes rather the contributions of the new morality to a series of social problems; the morality he advocates turns out to be nothing very new, but merely an up-to-date utilitarianism which corrects but does not repudiate our inherited codes. The philosopher with his balanced statements and closely reasoned arguments has rather the better of it, and will please all except those who think that to be really intelligent one must dismiss all discussion of social problems as futile.

W. Rex Crawford.

The Municipal Index for 1928. Pp. 719. New York: American City Magazine Corporation.

This annual improves steadily, not merely in the matter of information, but in that of classification and presentation. It is primarily, as its name indicates, an Index, but it is far more in that it presents excellent summaries of various developments. Much of the material has already been printed in *The American City*, but that does not diminish its value. The extensive lists of public officials seem to be as accurate and as up to date as it is possible to make them. Among the lists are those of mayors and city managers; bureaus of municipal research and taxpayers' associations; real estate boards of cities over 30,000 population and their secretaries (new feature); local safety councils in the United States affiliated with the National Safety Council (a new feature); park and playground officials; state and county engineers (a new feature); and state chambers of commerce (another new feature). The Water Works Statistical section of 1927, too, is supplemented by a list of water works superintendents of cities over 10,000 population.

Among the outstanding articles are to be noted a "Model Accounting System for Municipalities," by Francis Oakley, C.P.A.; "Means of Reducing Traffic Accidents and Street Congestion," "The Snow Removal Problem," by V. R. Burton, Engineer, Research and Statistics, Michigan Highway Department; "Codification of Municipal Ordinances," by Earle Gill, Consulting Counsel on Municipal Corporations, with a list of available model ordinances; "Sanitary Hazards: Source to Consumer," an article on water-supply problems by E. Sherman Chase; reports on street and highway lighting and public regulation and operation of public utilities. The statistics given include street construction, outdoor municipal swimming pools, fire losses, power plants and their equipment, motor truck maintenance and city finances. The figures are those of the 1927 reports.

C. R. W.

Leland, Simeon E. *The Classified Property Tax in the United States.* Pp. xiv, 492. Price, $3.50. New York: Houghton Mifflin Company, 1928.

This book is a careful and inclusive study of the development and achievements of the classified property tax in the United States.

The topics covered include chapters on the following subjects: The prevailing system of state and local taxation; the nature and methods of classification; the classification movement; the case in favor of classification; objections to classification; the classification principle as applied to taxation of land; application of classification to special types of intangibles; comprehensive systems of classification; the taxation of intangibles in Pennsylvania; the classified property tax in Connecticut; the classified property tax in Maryland; the classified property tax in Iowa and Rhode Island; classification in Oklahoma, South Dakota and Nebraska; other cases of classification: District of Columbia, California, Kansas, and Vermont; the place of classification in the tax reform movement.

An appendix gives the votes on classification amendments, and the assessment of intangibles under classification. There is a good bibliography of fifty pages.

This is one of the books in the Hart, Schaffner & Marx Series. The generosity of this firm in making it possible to publish such books as this has received deserved comment from those interested in high grade research. It is to be regretted that in this case the book is printed in type so small as to make reading difficult.

CLYDE L. KING.

SCHMECKEBIER, LAWRENCE F., PH.D. *The District of Columbia: Its Government and Administration.* Price, $5.00. Baltimore: The Johns Hopkins Press, 1928.

This is one of the "Studies in Administration" issued under the auspices of the Institute for Government Research. It is an elaborate descriptive survey, covering 943 closely printed pages, of the nation's seat of government and its relation to the Federal Government and to its citizens. It is no figure of speech to say that it is a veritable storehouse of facts, from which the Institute will in due time draw for the critical and constructive suggestions which will appear as a companion volume. One reason for the elaborateness of the study is due to the fact that the District of Columbia presents unique problems not to be found in other governments, and which have as yet failed to receive satisfactory solution.

C. R. W

LEWIS, STUART. *An Outline of American Federal Government.* Pp. ix, 224. Price, $1.65. New York: Prentice-Hall, Inc., 1928.

This book contains fourteen chapters dealing with most of the conventional topics covered in the introductory course in American National Government. The presentation is descriptive and factual, with little effort at the analysis or interpretation of our institutions. The emphasis is almost entirely upon the structure, with little attention to the powers and functions of the government. An appendix includes the text of the Declaration of Independence, the Articles of Confederation, and the Constitution of the United States.

While much useful information is presented, it is difficult to see how a book of this type can be of much use as a text for college courses; the so-called "general reader" would certainly desire a greater emphasis upon interpretation.

W. BROOKE GRAVES.

EAGLETON, CLYDE. *The Responsibility of States in International Law.* Pp. xiv, 291. Price, $6.00. New York: University Press, 1928.

This volume represents the first attempt in English to discover and clarify the rules which control the responsibilities of states and to show the basis and tendencies of these responsibilities. The author considers the responsibility of a state for the acts of its agents, individuals and civil wars, and for contractual claims; the measure of reparations; and the present need for international machinery for the interpreting, administering and enforcing of international responsibilities. Special treatment is also given to the rule of local redress and denial of justice, about which the majority of claims of the past have centered.

The study is technical in character. It is slightly labored in places, but this is excusable inasmuch as more than three hundred cases and controversies have been studied by the author in arriving at his conclusions. It is thoroughly documented and well indexed, and should prove to be of value to practicing attorneys as well as students of international law and world organization.

The reviewer questions whether it is correct to refer to the Permanent Court of International Justice as an arbitral tribunal (p. 218).

J. G. H.

BATES, FRANK G. and OLIVER P. FIELD. *State Government.* Pp. xii, 584. New York: Harper and Brothers, 1928.

While this book makes no attempt to depart widely from the traditional mode of treating its subject, it is not just another text. State government is not a subject which lends itself readily to sprightly treatment, but it has always seemed possible to the reviewer to get farther from the strictly legal and structural treatment than has

been true in the past. This the present authors have succeeded measurably in doing, and the result is that state government is presented as a living process, a going concern. This is especially true of the chapters on the legislature, the administrative services and the law and its application. The material here presented has a freshness and concreteness which is a welcome corrective to the traditional American legalistic attitude toward government in general. On the other hand, it is possible that the teachability of the book would have been increased by a somewhat briefer treatment of certain topics and by the inclusion of more periodical material in the chapter bibliographies.

LANE W. LANCASTER.

HARNO, ALBERT J., ANDREW A. BRUCE, ERNEST W. BURGESS and JOHN LANDESCO. *Parole and the Indeterminate Sentence.* A Report to the Chairman of the Parole Board of Illinois on "The Workings of the Indeterminate-Sentence Law and the Parole System in Illinois." Pp. 268 and Index. State of Illinois, 1928.

This report includes a history of punishment and parole in Illinois; an account of present conditions in the penal institutions of the state; an analysis of the work of the board of parole; a study of the cases of three thousand parolees, to determine the factors which make for success or failure on parole; a discussion of the relation between politics and parole administration; an examination of the methods used in supervising the state's parolees and an inquiry into the use of probation by the courts. The committee endorses the indeterminate sentence and recommends the continued use of parole. It accompanies this recommendation by specific proposals for improvements in parole administration along the following lines: (1) make the penal institutions genuinely reformatory; (2) employ social investigators to give the institutions and the board of parole more adequate information; (3) remove the parole board from politics, pay it well and give it a dignity comparable to that of the supreme court; (4) base parole selection upon a scientific prognosis of success or failure arrived at by statistical analysis; (5) employ more parole officers; (6) raise the qualifications for the supervisory personnel and (7) center the administration of probation and parole under one head.

If the parole administration of Illinois possesses the courage, the ability and the wisdom to carry these proposals into operation we may soon see parole changed from a distant ideal into a present reality.

CLAIR WILCOX.

SMITH, ALFRED E. *Progressive Democracy.* Edited by Henry Moskowitz. Pp. xiii, 392. Price, $3.00. New York: Harcourt, Brace and Company, 1928.

These selected addresses and public papers of Governor Smith are a gage of his interest in humanitarian ideas and liberal legislation. They stand as a creditable record of achievement. These selections cover his public career as legislator, alderman, delegate to the constitutional convention of 1915, and governor. In varying degrees they reveal the simplicity and directness, and something of the strength of the man. However, Al Smith the talker is the arresting figure; his written words lack something—probably it is the living charm of the governor's personality.

The publication of this volume at this time is fortunate.

J. T. SALTER.

PIPKIN, CHARLES W. *The Idea of Social Justice.* Pp. xvii, 595. Price, $3.50. New York: The Macmillan Co., 1927.

After a brief survey of the labor movements and social legislation in England and France beginning with the Health and Morals Act of 1802 and extending to the Factory and Workshop Act of 1901, Mr. Pipkin presents a more detailed study of the labor and socialistic movements in England and France and the social legislation with which the parliaments of these two countries were much occupied from 1900 to 1925—*e.g.*, Factory Acts, Old Age Pensions, Minimum Wages, Industrial Courts, Insurance, Unemployment.

Mr. Pipkin sees all this legislation as due to the growth of ideals of social justice, duty, and the good life on the part of the State, groups within the State and individ-

uals. "The will of the State is for the good Society and its action has promoted the aims of the good life." "The State cannot be unconcerned about the good society nor will it ever be again." "Ideals of the good continue to stir individuals, and the community will be gradually fashioned in the image of the good man." These are the author's working phrases. Can the man be found who says he is in favor of bad, unwise, or unsound legislation?

In making the study, the author sought the blessing of heaven, not of good eyesight; and when he uses his touchstones: ethics, ideals, social justice, the good life, "this oughtness," he is sure that something up in the universe approves of him. The study is conducted entirely with the tools of theology, not those of science; and this causes the author to be furtive and reduces his work largely to evangelism. Mr. Pipkin makes no use whatever of the extensive experimental work being done by social scientists in this country. He apparently does not know that it is not necessary to imagine approval and disapproval from above when one is studying the conduct of human beings, and that the actions of man as a natural being may become an object of intense curiosity to be observed and experimented with. Then one may report to his fellow scrutinizers the observations made upon human conduct and the structures and the forces, which the experiments indicate, are responsible for man's behavior.

ROBERT R. KERN.

BRIERLY, J. L. *The Law of Nations*. Pp. vi, 228. Price, $2.00. London: Oxford University Press, 1928.

This volume represents a brief survey of the International Law of peace. Chief attention is devoted to the character of the subject, the rights, duties, and jurisdiction of states and the settlement of disputes between states. Brief consideration is also given to the progress of international organization.

The author regards International Law as only "one institution among others which we have at our disposal for the building up of a saner international order." To this end he presents a stimulating review of the services which International Law has rendered in the past and shows the means by which such services may be further extended and improved in the future.

JOHN G. HERVEY.

SHANNON, FRED A. *The organization and Administration of the Union Army, 1861–1865*. Two volumes, pp. 323, 348. Price, $25.00. Cleveland: The Arthur H. Clark Co., 1928.

This elaborate study might well be entitled "The Mismanagement and Maladministration of the Union Army." It presents in great detail the ignorance, carelessness, and inefficiency of those responsible for clothing, provisioning, and disciplining the army. It gives a sorry picture of contractors, gamblers, outlaws, and bounty-jumpers all engaged in robbing the government or its citizen-soldiers. The author hints in his preface that Huidekoper's "Military Unpreparedness of the United States" was largely propaganda in favor of preparedness in 1915. The present work has no such purpose, yet unconsciously it is a telling argument against war and militarism. It takes much of the glamour out of war, and shows how the times of war give play to some of the most sordid practises and passions. Especially good treatment is found in the study of munitions supply and the remissness of the War Department in investigating and adopting new devices. "If the Navy Department had been as conservative as the War Department, the *Monitor* would not have appeared to check the depredations of the *Merrimac*, . . . the Confederacy would have been given a new lease of life, in which case a negotiated peace could have been the only logical conclusion of the war." The struggle for a national draft act, the execution of the draft, and the system of substitutes and bounty payments are given full treatment. The work is based upon an adequate study of all available sources, and is accompanied by a bibliography and an excellent index. It is a work that ought to be widely read, yet it probably will not be owing to the small edition and the high price. The work contains very little, if any, more actual words than Dr. J. G. Randall's *Constitutional Problems under Lincoln*, which sells

for one-fourth the price of the present volumes.

M.

Pergler, Charles. *Judicial Interpretation of International Law in the United States.* Pp. viii, 222. Price, $2.00. New York: The Macmillan Company, 1928.

This brief survey constitutes a handy reference volume on the interpretation of international law by United States courts. Much of the material can be found scattered in other works, such as Moore's *Digest*, but here for the first time the holdings of our courts on a wide range of questions are conveniently collected in one volume and brought up to date. For the most part the writer contents himself merely with stating the decision of the courts, but occasionally he enters into a discussion of the merits and principles involved in disputed decisions.

This book deals only with the laws of peace, but the writer promises a similar survey for the laws of war and neutrality in the near future.

Amry Vandenbosch.

Bancroft, Frederic. *Calhoun and the South Carolina Nullification Movement.* Pp. vi, 199. Price, $2.00. Baltimore: The Johns Hopkins Press, 1928.

As a work of scholarship this book is little more than a variation on a familiar theme. But it is a worth-while variation because of its emphasis on the factitious place and faction-breeding influence of the tariff in American history. Long ago, as the author points out, it was the panacea and at the same time the scapegoat of American politics.

W. B.

Pigou, A. C. *A Study in Public Finance.* Pp. xvii, 323. London: MacMillan and Co., 1928.

This volume supplements two other volumes by the same author: "The Economics of Welfare," and "Industrial Fluctuations " The three books together embody the main part of what Professor Pigou has to say on general economics.

The book discusses the sources of funds for governmental expenditures, the different sources of tax revenue, and financing by borrowing. The book is the work of an eminent theorist, and it is needless to say that it is worthy of a Professor of Political Economy in the University of Cambridge.

Palacios, Leopoldo. *Los Mandatos Internacionales de la Sociedad de Naciones.* (*The International Mandates of the League of Nations.*) Pp. 303. Madrid, 1928.

In this volume Dr. Palacios has not only given an admirable presentation of the mandate system of the League of Nations, but has entered into the historical antecedents leading up to the decision reached by the Paris Peace Conference. He also sets forth with great care the conditions under which the mandates, assigned to the several countries members of the League, have been administered. The impression left in the mind of the reader is that the mandate system, in order to avoid the dangers of exploitation, requires constant supervision and checking up by the authorities of the League.

The work of Dr. Palacios is a very real contribution to our knowledge of the mandate system.

Crompton, George. *The Tariff.* Pp. ix, 226. Price, $2.50. New York: The MacMillan Company, 1927.

In a subtitle the author says that this book is an interpretation of a bewildering problem, and to the reviewer he doesn't take the bewilderment out of the problem. He discloses in the usual fashion the free trade arguments as fallacies and the arguments for protection and comes to the conclusion that protection must triumph.

Smith, Elliott Dunlap. *Psychology for Executives. A Study of Human Nature in Industry.* Pp. xii, 262. Price, $3.50. New York: Harper and Brothers, 1928.

For men who are dealing with individuals who wish a book analyzing motives and replete with factory illustrations, this volume is certainly a fine addition to the field. In a word, it certainly gives theory and practice a new coördination. Group management, through an understanding of fundamental mental operations, is the method throughout. The human aspects of handling groups and of managing through the use

of this knowledge is the spirit in which the book is written. It is the reviewer's opinion that the suggestion for teachings set forth in Appendix I may be the part of the book most likely to raise differences of opinion.

J. RUSSELL DOUBMAN.

ROBINSON, CYRIL E. *England.* Pp. xiv, 892. Price, $5.00. New York: Thomas Y. Crowell Company, 1928.

This is a one-volume edition of Robinson's four-volume work. This edition of nearly nine hundred pages comprises all the original work and is brought up to the close of 1927.

The book is an excellent comprehensive history of England. Its special charm is in its style. The book is readable, interesting, and is well proportioned. There is an excellent historical summary as an appendix.

CLYDE L. KING.

ANDERSON, ARTHUR G. *Industrial Engineering and Factory Management.* Pp. xiii, 623. Price, $5.00. New York: The Ronald Press Company, 1928.

A great deal of valuable and specific information is brought together in this volume, which is well written, clear and interesting. Emphasis is placed on the engineering phases of factory work, the detailed problems involved in building and making the building suitable for its purposes. With the exception of the financial structure and implications of factory management, a subject rather generally neglected in books in the field, all the more important phases of the subject seem to have been fairly covered. There is a chapter on budgeting. At some points a slight lack of continuity between chapters is to be observed. A series of questions at the end of each chapter facilitates a review of the ground covered.

HENRY P. DUTTON.

INDEX